ECONOMY

401 Economic Aspects of Canadian Federalism

canada

Canadian Unity Information Office
Centre d'information sur l'unité canadienne

ECONOMIC ASPECTS OF CANADIAN FEDERALISM

DOCUMENTS DESIGNED TO ENCOURAGE A BETTER UNDERSTANDING OF THE ECONOMIC CONCEPTS WHICH UNDERLIE OUR FEDERAL SYSTEM OF GOVERNMENT.

INTRODUCTION

One of the measures most indicative of the achievements of the Canadian federal system is the degree to which wealth and resources are redistributed on an equitable basis throughout the different regions in Canada.

The documents in this kit are presented to you in an order ranging from general to detailed, and as such, lead to the comprehensive calculations in the final documents.

In the first part of the kit, there are broad statements such as, "Canada is far more productive and equitable than any of its parts" (Premier Davis), and as well, an analysis to the effect that "there are enormous benefits (without offsetting costs) that are generated by the very existence of Canada as a larger, more varied and more capable society than any of the provinces in isolation. . .every province's share of these benefits is much in excess of its costs of membership in Confederation." (Parzival Copes)

Finally, in the Ontario Budget, Paper E, you are presented with some economic calculations relating to the functioning of the Canadian federal system. These calculations try to explain how, through equalization payments, each province can achieve remarkable progress towards raising its standards of public services to that of the other provinces.

SELECTED DOCUMENTS

1. Copes, Parzival, **The Economics of Federalism – Canada: Greater than the Sum of its Provinces**, 1977, (forthcoming in Opinion Canada.)
2. **Options for Quebec and Canada**, by Jean Chrétien, Minister of Finance, Department of Finance Press Release, 78-07, Ottawa, 23 January 1978.
3. **Extracts from Speeches by the Provincial Premiers** on the Economic Aspects of Canadian Federalism, 1977.
4. "Federal Fiscal Redistribution Within Canada," Budget Paper E, in **Ontario Budget 1977**, presented by W. Darcy McKeough, Treasurer of Ontario, 19 April 1977, pages 3-33.
5. **Provincial Economic Accounts**, by Donald Macdonald, Minister of Finance, Department of Finance Press Release 77-63, Ottawa, 6 June 1977.
6. **Preliminary Observations on the Economic Accounts of Quebec**, Federal-Provincial Relations Office, Co-ordination Group, Ottawa, 5 April 1977.

SUGGESTED READINGS

*1. **Methodological Details of Calculations Appearing in Mr. Macdonald's Comments on the Provincial Economic Accounts**, Department of Finance Press Release 77-63, Ottawa, 6 June 1977.

2. C. D. Howe Research Institute, Accent Québec Series, **Why do the Balances Differ on Federal Receipts and Expenditures in Quebec?**, 1977.

3. Safarian, A.E., **Canadian Federalism and Economic Integration**, Constitutional study prepared for the Government of Canada, Information Canada, Quebec, 1974.

4. Barker, Gordon and Richard Beaudry, **Maintenir, rompre ou. . . faire l'unité canadienne?**, a bibliography on the economic aspects of Confederation, Economic Council of Canada, Document No. 99, October 1977.

* Available upon request from the Canadian Unity Information Office

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The documents contained in this kit are taken from various sources and do not necessarily reflect the Government of Canada's point of view

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Please note the following additions to Documentation Kit #401 - Economic Aspects of Canadian Federalism:

SELECTED DOCUMENTS

Add:

* 7. Federal - Provincial Conference of First Ministers, Conclusions of the Conference, Ottawa, 13-15 February, 1978.

SUGGESTED READINGS

Add:

** 5. La Forest, G.V., The Allocation of Taxing Power Under the Canadian Constitution, Canadian Tax Foundation, Toronto, 1967, Chapters 1,2 & 3.

6. Smiley, Donald V., The Political Economy of Canadian Federalism, as part of a Seminar on "The Canadian Economy: Possibilities, Prospects and Problems," Session I: Quebec City, 17-25 June, 1976; Session II: Val David, 21-29 October, 1976.

* ATTACHED
** Available upon request from the Canadian Unity Information Office.

July 1978

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FEDERAL-PROVINCIAL CONFERENCE

OF

FIRST MINISTERS

Conclusions

of the Conference

Ottawa

February 13-15,1978

The First Ministers of Canada's eleven governments have arrived at far-reaching agreement in a large number of economic matters.*

Following three days of intensive meetings in Ottawa and two months of preparatory sectoral talks, they announced steps today that will:

- facilitate the setting of economic objectives,
- improve demand management policies,
- foster responsible price and incomes behaviour,
- strengthen the business investment climate,
- and further shape trade, industry, energy, manpower and regional development initiatives.

First Ministers see an expanding private sector as the major impetus for growth in the Canadian economy.

After agreeing to important policy improvements, they outlined a list of major projects in energy, automobiles, transport and fisheries that can be initiated to stimulate economic growth.

* C.U.I.O. Footnote: The Premier of Quebec did not sign the agreement.

1. Medium-Term Objectives

(i) It was agreed that the basic and clear objectives of economic policy should be a sustained growth of output and employment, a reduction of unemployment and a reduction in the rate of inflation.

(ii) The governments agreed that the expansion of jobs should come to the largest extent possible from business investment in the private sector, the development of new sources of energy, and from a more rapid growth of exports than imports. The increased level of investment necessary to be largely financed from abundant Canadian savings.

(iii) Progress in the restoration of price stability is critically important.

(iv) Governments recognized that action is required now to speed up the economic recovery which has now begun. In this context, setting out medium-term projections and targets for the Canadian economy is desirable and useful.

2. Demand Management Policies

(i) The general instruments of monetary and fiscal policy should be used to encourage the growth of demand which would bring the desired growth of output and employment at declining rates of inflation.

(ii) The monetary policy being pursued by the Bank of Canada is consistent with this objective. First Ministers agreed that the Governor of the Bank of Canada should review the objectives of monetary policy with the Conference of Finance Ministers on an annual basis.

(iii) The trend of government expenditure growth should be held, on average, to less than the trend growth in the value of the G.N.P. or provincial gross product. In this context, however, it was agreed that capital expenditures of a revenue producing nature were important to economic growth and development.

(iv) Current large deficits limit the ability of governments to provide further economic stimulus through either increased spending of tax reductions. But these deficits should be reduced quickly as the desired rate of recovery is achieved.

Prices and Incomes Policies

(i) The achievement of the medium-term economic objectives is dependent upon sustained reduction in the rate of inflation of prices and costs. In the post-controls era, the common sense and realism of all Canadians must be relied upon to avoid any renewed outburst of inflationary pressures. In this regard, effective consultations between governments and the private sector would be crucial in lowering the rate of inflation to the target level of 3½% by 1981.

(ii) It was agreed that the Economic Council of Canada in addition to its present statutory functions be requested, if feasible, to assume the responsibility for analyzing price and cost developments for a limited post-control period. Its function would be to inform the public and draw public attention to cost or price developments which appear to threaten the national economic objectives. It would also have a research and educational role in the improvement of productivity.

(iii) The level of total compensation paid to public employees should not lead the private sector. It was agreed to establish a mechanism for the exchange of compensation information among governments and to continue consultations on practices in this important area.

4. The Business Environment

(i) The burden of government regulation on the private sector should be reduced and the burden of overlapping federal and provincial jurisdictions should be eliminated. Procedures will be instituted to review the effects of regulatory action on jobs and costs. First Ministers agreed that the whole matter of economic regulation at all levels of government should be referred to the Economic Council for recommendations for action, in consultation with the provinces and the private sector.

(ii) Foreign investment is welcome in Canada /wherever it is consistent with national or provincial objectives/.

(iii) The federal-provincial corporate tax structure appears to be internationally competitive and must remain so.

(iv) Finance and Resource Ministers will undertake an early review of the taxation of the petroleum and mineral industries.

(v) Joint steps will be taken to improve tax incentives or credi to industry for research and development, the expansion of employment opportunities in these areas, and increased dissemination and application of existing technology.

5. Trade and Industrial Policy

(i) Canadians should be encouraged to buy Canadian-produced goods where quality and price are comparable to imports. A joint federal-provincial advertising campaign based on the slogan "Create a Job: Buy Canadian" should be developed in an overall program of import replacement.

(ii) Canada should continue to conduct negotiations in GATT with the aim of achieving positive net benefits to Canada and a balance of benefits and costs which reflects the interests of all provinces.

(iii) The federal government will continue to keep provinces informed on progress of GATT negotiations and will consult with them as soon as possible on matters of their concern.

(iv) There was general agreement that continued growth in exports is important and that Canada should seek to expand them through reduction in tariff and non-tariff barriers, particularly for the export of processed raw materials, recognizing that some price has to be paid for such greater access in terms of allowing access to the Canadian market.

(v) There was general agreement that new arrangements resulting from trade negotiations will require some adjustment for particular industries. Governments should move with despatch to indicate the type of assistance for such adjustment which will be available. The process of adjustment would be facilitated if changes in tariff policy were introduced gradually.

(vi) Efforts should continue to be made to expand export opportunities for agriculture and fishing products machinery and equipment and petrochemicals, and to increase Canada's share of auto production and investment.

6. Manpower Policies

(i) Immediate and high priority will be given to strengthening manpower training and placement programs with particular attention to youth, women, workers affected by lay-offs, disadvantaged groups, and areas of highest unemployment.

(ii) Continuing attention will be given to the innovative use of Unemployment Insurance funds for productive employment and job creation.

7. Regional Policies

(i) First Ministers strongly affirmed the importance of reducing regional disparities and the continuing need for review and expansion of programs for regional development, based on the longer-run economic development potential and transportation requirements of each province and region.

(ii) It was agreed that DREE should continue to be a major federal agency for these purposes.

8. Energy

(i) First Ministers strongly affirmed the importance of reducing dependence on foreign sources of energy.

(ii) They agreed that intensive programs of conservation, substitution among energy , and R & D[1] for new energy technologies be pursued.

(iii) In addition, they agreed to collaborate in accelerating major energy developments wherever appropriate.

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[1] Research and Development

9. Agriculture

First Ministers placed heavy emphasis on the importance of agriculture and food sectors in the Canadian economy. They agreed to recommendations submitted to them by their Agriculture Ministers. Included in these policies are: upgrading and processing of agricultural products; buy canadian food campaign; grain marketing strategy for Canada; agricultural research: expansion of international markets for Canadian agricultural products and an improved transportation system.

Tourism

First Ministers agreed to collaborate in a national campaign to expand the domestic tourist industry by increased travel promotion, by expansion and improvement of facilities,and by minimizing costs to both Canadians travelling at home and foreign visitors.

11. Fisheries

First Ministers agreed that all governments must move quickly to maximize Canada's economic potential arising from the implementation of the 200-mile limit and that greater provincial involvement in policy development should be facilitated. For example, initiatives should be launched concerning fleet development, onshore production facilities, harbour and wharf improvements, marketing development and training of personnel.

12. Forestry

Governments agreed to:

1. the importance of R and D programs[2], greater technology transfers, and modernization of capital plant and equipment in forest-based industries;
2. cooperate towards the elimination of the spruce budworm and other harmful infestations;
3. the importance of continuing silviculture re-forestration programs, and to study the possibility of reorienting Canada works programs in that direction;
4. continue federal-provincial cooperation on forest management.

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[2] Research and Development programs.

13. Housing

First Ministers agreed:

(i) that ministers responsible for housing should examine the provinces' proposal for global funding of housing programs;

(ii) to increase the rate of housing production for those in greatest need;

(iii) to make the greatest possible use of private capital to finance housing production;

(iv) to simplify rules governing federal and provincial housing and community services program operations; and

(v) to simplify federal housing programs.

14. Manufacturing Industries

First Ministers agreed to seek out the active involvement of the private sector (including business and labour) in federal-provincial discussions on specific development programs tailored to the particular requirements of each of the manufacturing sectors.

Agreement on follow-up arrangements will be added to this summary of conclusions.

The Federal Government and Provinces involved agreed on an investment and job creation to include the following projects:

Energy

1. Gull Island Hydro	First Ministers today tabled a joint press release by Premier Moores of Newfoundland and the Federal Minister of Energy, Mines and Resources concerning the establishment of the lower Churchill Power Development Corporation that will deal with engineering, marketing, financing and construction of the Gull Island Hydro project.
2. Incentive Package for Non-Conventional Oil	The federal and Saskatchewan governments in conjunction with the private sector would jointly participate in the development of a heavy oil upgrading facility in North-western Saskatchewan. These two governments also agreed to coordinate their tax and royalty structures to provide inducements for the development of enhanced recovery projects.

The Federal Government and Provinces involved agreed that priority attention be given to accelerate consideration of the following major projects:

1. Maximize benefits from new 200-mile fisheries limit.	Federal and provincial governments will adopt programs and measures to ensure the preservation of fishing stocks and the adequacy of the fishing fleet and on-shore processing and support facilities including the prospect of modernizations throughout the industry.
2. Expansion of grain storage facilities at Prince Rupert.	Alternatives for grain storage and grain handling at Port of Prince Rupert.
3. Increased automotive industry investment.	Federal and provincial governments will provide incentives and take measures to ensure that the proportional share of the increasing investment in new plant for the automobile industry takes place in Canada.
4. Opening of New Cape Breton Coal Mine	DEVCO is presently evaluating a new coal mine at Donkin, which would produce an estimated 1.6-2.0 million tons/year, cost an estimated $100 million, and employ up to 1,000 workers.
5. Natural gas pipeline to eastern Canada.	The government of Canada will encourage the application for a natural gas pipeline extending eastward from Cornwall to the Maritimes with initial construction in 1979.

6. Fundy Tidal Power	N.S., N.B. and the federal government have financed Phase I of tidal power study. Depending upon a favourable Phase I report, the three governments agree to proceed with detailed site engineering work.
7. Dempster Pipeline	The Foothills consortium is committed to filing an application by July 1, 1979 for the Dempster extension to the Mackenzie delta.
8. Polar Gas Project	First stage of the application is now before the N.E.B.
9. Tenneco Long Term Project	Tenneco would import Algerian LNG to terminal at Saint John, N.B. for vaporization and delivery by 66 mile pipeline to U.S. border. Approved by NEB. Approval in U.S. contingent on outcome of LNG import policy reviews.
10. Arctic Pilot Project	Melville Island LNG (250 MMcfd) would be shipped to U.S. or Canadian East Coasts. Petrocan would participate. Regulatory applications expected in 1978.
11. Summerside P.E.I. Demonstration of Fluid Bed Boiler (Coal/Gargage)	Atmospheric pressure combustion for heating plant. Inputs are coal and/or waste. Conceptual design phase. Decision to start design expected in 1978-79.
12. Ontario Hydro-Bruce, Pickering, Darlington, Wesleyville, Atikokan	The Ontario Government will continue to support Hydro's construction programme recognizing not only job creation but that any marginal surplus will find ready markets.
13. Improvements to the national railway system	Expanded investment in railway roadbed, modernization and retracking across the country.

CANADA: GREATER THAN THE SUM OF ITS PROVINCES

by Parzival Copes

Some decades ago, a prominent Prairie newspaper published a cartoon showing a cow grazing across the map of Canada, with her head bent down to the Prairies. The other end of the animal was in Ontario, where it was being milked with glee by a smiling industrialist. The thought behind this picture was obvious -- it was the familiar complaint that western farmers are subsidizing eastern factory owners by paying high prices for farm machinery and consumer goods produced in tariff-protected industries.

A little while later a cartoon appeared in a well-known Ontario newspaper. There again was the map of Canada and the cow; but this time she was facing the other way - eating dollar bills out of the pockets of an easterner, while being milked furiously by a laughing Prairie farmer. The intention, of course, was to protest Ontario tax dollars being used to subsidize western farmers.

Every country has its regional and class divisions. Each group naturally is keen on obtaining a larger share of the nation's income and wealth. In arguing for a larger share, each is inclined to exaggerate its own contribution to the country and to understate the contribution of others. Each group tends to complain about the sacrifices it is asked to make and to forget about the benefits it enjoys.

In a federal political system, such as that of Canada, regional claims and counterclaims can be made with particular force by provincial governments. They enjoy power and authority independent of the central government. Each provincial administration, being responsible only to its own electorate, will be inclined to promote its regional interest against that of other parts of

the country. And to make maximum impact on its voters it will want to be seen publicly to argue loudly and insistently on behalf of its provincial rights and provincial interests. A federal system thus has a built-in danger of strong divisiveness.

Most countries operate under a unitary political system where the national government holds all original power and regional administrations are dependent upon the central authorities. The important questions are decided at the national level. There regional representatives must make their case in a national assembly, where a national perspective is maintained and where exaggerated regional arguments will be swiftly countered and deflated.

Of course, federal systems do offer some advantages.too. They give regional governments greater power to deal effectively with local matters. This is important in keeping government closer to the people in countries that are geographically so widely dispersed as Canada. Furthermore, provincial authority provides the means of guaranteeing regional rights in such areas as culture and education. Obviously a provision of this kind is essential to satisfy the French speaking population of Quebec that their rights are secure within Canada.

In a federal system regional rivalries may be restrained when the country is faced with a common threat. The Great Depression followed by World War II marked a period in our history when popular consensus allowed the federal government to assume greater powers of direction over the economic and political life of the nation, in order to deal with the momentous problems that were beyond the competence and resources of individual provinces to handle.

But since the early 1950s trends have run in the opposite direction. We have become increasingly preoccupied with a squabble over our respective shares of the national economic pie. Our materialistic interests have been regionally centred and our concern for the welfare of fellow citizens elsewhere

has been blunted. "Let the eastern bastards freeze in the dark if they won't pay more for our oil", is the Albertan version of an attitude that is all too common to thoughtless people in all provinces.

Out of narrow self interest (rather than malice) provincial governments have seized upon this mood of self-centered regionalism in the country to demand ever larger concessions from Ottawa. Provincial politicians have learned that they can gain in political prestige and importance by weakening the economic power of Ottawa, while reinforcing their own.

The success of the provincial governments in their drive towards greater power is reflected in the growth of the budgetary resources of the provinces, together with those of the local governments under their authority. At the end of World War II the federal government had a current income more than three times that of all provincial and local governments combined. In the late forties and early fifties Ottawa's income was still about twice as large as that of the junior governments. By the 1960s, however, provincial and local governments had built up budgetary resources that allowed them together to out-spend the federal government (not counting inter-governmental transfers of funds).

The relative decline of Ottawa's economic authority is the more serious because the growing complexity of our economic system requires strengthened powers of economic coordination, direction and management by the central government - including greater control over the level and direction of public expenditures. Instead, we now have ten separate provincial governments together controlling a larger volume of these expenditures than the central government. Each province pulls in the direction of its own narrow sectional interests, often cancelling out the economic management influence of Ottawa. We need hardly be surprised that the federal government has shown such limited effectiveness in dealing with Canada's serious economic problems of unemployment, inflation and regional retardation in recent years.

Despite the great shift of financial resources from the federal government to the provinces that has taken place in recent times, complaints by the provinces that they are being short-changed continue unabated. Indeed, the voices of protest are more shrill than ever. "B.C. gets 'worst' Confederation deal" was a headline I encountered the other day in my local newspaper. A few weeks earlier Premier Lévesque proclaimed that Quebec had lost $4.3 billion over 12 years by being part of the Canadian Confederation. Last year Alberta complained bitterly that they were being required to support the rest of the country through Ottawa's "rip off" of their oil revenues. Even the Atlantic Provinces, that cannot deny receiving large financial subventions from Ottawa, find opportunities to object. They feel cheated by the federal exercise of jurisdiction over offshore resources. And Newfoundlanders have bitterly accused Ottawa of being slow to support the rights of their fishermen to a 200-mile limit, because the trading interests of other provinces required Canada to be nice to the foreigners.

The tone of all these provincial complaints has been materialistic in character and narrowly selfish in emphasis. The question is always one of "what do we get out of it" or "how much are we required to pay". Ottawa has been reluctant to engage in debate with the provinces on this basis for several good reasons. In the first place it is impossible, even with the most sophisticated economic calculations of which we are capable, to come anywhere near an accurate accounting of the costs and benefits of Confederation for any single province.

It is fairly easy to figure out how much Ottawa has raised in taxes in any particular province and how much they have paid in direct benefits to the government, to business and to individuals in that province. But indirect costs and benefits may be far more important and they are impossible to estimate in their entirety. How much money does Ottawa save each province by taking care

of diplomatic representation, law enforcement, military protection, international trade promotion, scientific research, fisheries protection, manpower services, communication networks and a host of other services? There are many different possible answers. How much would each province want or need of those services if it was an independent country, or if it made up a new country with one or two or three other provinces?

The claims put forward by some provinces that they are "losing" money in their relations with Ottawa, or that they are paying too much for membership in Confederation, are usually based on silly arguments and accounting tricks. They habitually leave out the cost of common services provided by Ottawa that would have to be taken care of by the provinces themselves at a much higher figure per capita, if they operated as separate countries.

There are many other indirect effects of Confederation that are almost impossible to account for. Who can say how much each province has benefited or suffered from various tariff measures taken by Ottawa? Or how much each has gained in economic development from "infrastructure" expenditures by the federal government on railways, roads, harbours, airports and so forth.

And how much has each province profited from the unfettered movement of its products throughout Canada? How much has each gained, or lost, from the mobility within Canada of workers educated at the expense of one province and contributing their life's work to another? Who should be credited for taxes collected from corporations located in one province on profits from business undertakings in other provinces?

No one can provide a full and unambiguous accounting of all of the benefits and costs of Confederation to a particular province. It will be easy to pick holes in the accounts that any province may attempt to present on this question. The federal government has been successful in doing just that with the grossly inadequate and grossly biased accouts recently made up by Lévesque's

government in the name of Quebec.

A second good reason for Ottawa's dislike (and sparing use) of the accounting approach to the debate on the merits of Confederation is the danger of arguments backfiring. Ottawa politicians have already burned their fingers in pointing out to Quebec that they benefit under tax redistribution schemes. The wealthier provinces provide a higher proportion of the revenues and the poorer provinces, including Quebec, gain a larger proportion of grants from Ottawa. The argument was intended - in the interest of national unity - to persuade Quebecers that they benefit from Confederation. But it didn't prevent the separatists from gaining a major election victory last November. On the other hand, the argument was picked up by anglophone rednecks who used it to claim that "Quebec is sucking Canada dry" and should be kicked out of Confederation.

The federal government seems to recognize now that if this country is to survive and prosper it will need a will to stay together for a better reason than the calculated economic benefit of each regional interest group. What is needed is a sense of family cohesion extending throughout the country. It is a question of who you are prepared to share with. Do you want your taxes to be used only in your own province or are you prepared to have them help unemployed workers in Newfoundland, orphans and widows in New Brunswick and old-age pensioners in Manitoba? It is a question also of where your pride lies. Do you rejoice when a Saskatchewan curling rink, a Quebec hockey team or a British Columbian rowing crew wins for Canada in international competition? Are your national emotions stirred by the majestic beauty of the Canadian Rockies, the scarlet magnificence of autumn in the Laurentians and the graceful lines of an old fishing schooner at anchor in Lunenburg? Do the Niagara Falls, Green Gables, and the Cabot Trail belong to your country? Are Jacques Cartier, John Cabot and the Yukon Gold Rush part of our Canadian history?

We will never gain the sense of collectivity, nor will we ever succeed in feeling content or secure as Canadians until we have come to accept as our own all parts of this country without venal thought of cost and benefit. Nevertheless, a realization of our own good economic fortune in being part of Canada undoubtedly will ease transition to the state of mind where we cease to make mercenary calculations. It will help this process no end if people in each province are satisfied, once and for all, that they do benefit materially from Confederation.

One major problem in laying to rest the question of how the material benefits and sacrifices of Confederation are balanced in each of the provinces can be found in a common error of economic understanding. It is thought too often that what one province gains another must necessarily lose. This simplistic bookkeeping mentality holds that if the federal government pays out more benefits in one province, it must have collected more taxes in another. After all, the books must balance. The debate over Quebec separation has been cast in this mould by mean minded people in both the francophone and anglophone communities. There are the Quebec blackmailers who say "give us more or we'll pull out" and there are the anglophone skinflints who cry "get rid of the Quebec bloodsuckers".

As a matter of economic fact it is not at all correct to hold that what one province gains from Confederation another must lose. For there are enormous benefits (without offsetting costs) that are generated by the very existence of Canada as a larger, more varied and more capable society than any of the provinces in isolation. All provinces that are part of Canada may share in these benefits. And while I have previously pointed out that it is impossible for any province to draw up an accurate balance sheet of the benefits and costs of Confederation, I hold that it is a reasonable judgement that the benefits of Confederation are so pervasive that every province's share of these benefits is much in excess of its costs of membership in Confederation.

There are three kinds of material benefits that the provinces may enjoy

as partners in Confederation, and that they will lose in whole or in part if they live as separate political and economic units. First of all there are shared overheads. Suppose all of the provinces were independent states, each with its own diplomatic corps, supreme court, armed forces establishment, national broadcasting system, etc., etc. Altogether they would have to pay for ten ambassadors to the United States, ten to Britain, ten to France, etc. As a part of Canada each need only contribute a minor share towards a single Canadian ambassador to each of these countries. Amusingly, as separate countries, each province would also have to find nine extra ambassadors to appoint to one another. Without Confederation all provinces would experience much greater overhead costs of government, reducing resources available to support real living standards.

The second set of special benefits from Confederation are those connected with the operation of a common market. Canada, with a total population of 23 million, has a market large enough to support an automobile industry, steel smelters, chemical plants, appliance factories, etc. Most provinces (maybe all) by themselves would be too small to support such plants, or else would find that their shorter production runs increased the cost of their products inordinately.

The special benefits of Confederation most difficult to define, describe and measure (though they could prove to be the most important) may be referred to as the effects of synergy. As a society Canada offers its people a much greater variety and intensity of experiences, contacts and influences, and a much greater pool of talents and resources for interaction than any separate province could give as a relatively isolated political entity. Synergy comprises the results of the complex interactions embodied in the "personality" of a country. We know not how much our material development owes to the wider opportunities and greater stimulation that we may all experience in the broader

Canadian society that we would fail to receive in the confinement of a separated province.

It is almost certain that every province benefits materially from being part of Canada. The inevitable inefficiency that would result from ten provinces operating as separate economic units undoubtedly would mean that their separate incomes would add up to much less than the total income they now achieve together within Canada.

If Canada were to split apart, the separate provinces would not only lose the benefits of Confederation described above, they would also face substantial costs of conversion to the new political and economic arrangements that would emerge. The business of old Canada-wide institutions would have to be wound up, assets disposed of at a loss, and contract termination allowances paid to employees and suppliers. A multiplicity of new bureaucracies would arise in the individual provinces, or combinations of provinces, that became separate countries. They would all face special start-up costs of organization, staffing and supply. On the economic front, industries that lost access to Canada-wide markets would have to retrench or close down. New industries operating within the tariff walls of the new states might take their place, but they would tend to be of smaller scale and higher cost.

It is true that some provinces contribute proportionately more to Canadian tax revenue than others. But these are the more affluent provinces. By definition they enjoy the greater rewards from the prosperity created by common effort in the total Canadian economic system. These provinces should pay proportionately more, for the same reason that people in high income groups pay proportionately more taxes than those in low income groups. All of us can secure the incomes we obtain only because we live in a large complex society that gives us the opportunities to work and to earn the rewards that we get. Those who earn the most, benefit the most from the system and are therefore

called upon to contribute proportionately more through their taxes to the maintenance of the system. The same should apply among the provinces.

Each province's share in its benefits from, and contributions to, the Canadian Confederation will vary over the years. Some Albertans complain that their province currently makes extraordinarily large tax contributions to Canada from oil revenues. They seem to forget that in the hungry thirties Alberta received a particularly large share of the assistance measured out by Ottawa. Also, it was not many years ago that Alberta found it difficult to compete with cheap oil imports and received protection from Ottawa to sell its more expensive oil in the Ontario market. Alberta cannot escape a moral obligation to make especially large tax contributions during the present period of high oil revenues. When the oil runs out in the not too distant future, the province may be glad to be able to draw again on the resources contributed by other provinces.

The fact that poorer provinces contribute proportionately less in taxes does not mean that Canada would be economically better off without them. In particular, it is nonsense to claim - as is done by some biased anglophones - that we should rid ourselves of Quebec because that province costs more than it contributes. While Quebec's tax contributions are a little below the national average per capita, the total contributions by Quebec to the "national overhead" are enormous - something like a quarter of the total. If Quebec left, the national overhead expenditures would not be much reduced and other provinces would have to pay a good deal more to make up for the large volume of Quebec revenues that would be lost. Quebec constitutes an important integral part of the Canadian economy. Both sides would suffer inordinately if Quebec were to separate. The bigoted English speaking Canadians who would expel Quebec because "it is sucking us dry" are as wrong as the petty Quebec nationalists who claim they are being subjected to tax robbery by English Canada.

Given the historical, linguistic and geographical facts of life in Canada, it is unavoidable that this country should operate under a federal system of government, wherein the provinces will exercise jurisdiction over a range of activities of particular regional or local interest. But if we are to prosper economically, if we are to find emotional security in our national identity and if we are to experience pride in our national existence, we will have to counter our tendencies towards regional divisiveness. We will have to put the common national concern ahead of selfish provincial interests. We will have to concede to Ottawa enough power to give effective direction to our national economy, to develop a healthy national identity and to generate a justifiable pride in our country.

The approach that is taken to our present national crisis in most quarters is a disastrously short-sighted demand to further decentralize the country. This is meant to buy off the disgruntled provinces by extracting additional financial concessions from Ottawa and by shifting ever more of the economic and political decision making powers to the provinces. But the result of this will be that the federal government's capacity to manage the economy, to promote employment, to fight inflation and to rebuild depressed regional economies will be further eroded. The chances that this country will then live up to its enormous potential for economic prosperity will become increasingly remote. The immediate gains that each province imagines it has achieved individually at the expense of Ottawa, will be overwhelmed by the losses we will all suffer through the decreased productivity of the country as a whole.

A further result of concentrating too great a share of economic and political authority in the hands of the provinces, will be that they become too much the focus of identity and the objects of loyalty of people, to the detriment of national unity. Inter-provincial rivalry will increase, with

each province attempting to improve its position regardless of the effects on the common good. Mutual exclusiveness will be fostered. There will be an erosion of the will to retain a common national identity, a common pride and a mutual commitment to economic cooperation for the common good.

Canadians have become acutely aware that our national existence is threatened as never before. But so far not many appear to have understood the consequences of the short-sighted "solutions" that propose to give in further to the self-centred demands of the provinces, which can only lead to a further diminution of economic viability and national cohesion in this country. If we have a will for national existence it is now time to exert it and insist that our national government be given the powers to act like one.

401.2

Release

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"Options for Quebec and Canada"

Notes for remarks by
Finance Minister Jean Chrétien
to the Association of Quebec Economists,
Chateau Champlain
Montreal, January 23, 1978

Check Against Delivery

First of all, let me thank the directors of your association for inviting me to speak to you today. In view of the fact that a main objective of your group is to "raise the level of public debate on economic issues of the day," I have decided to take on a subject central to the pre-referendum year and highly important to all Quebecois and all Canadians: the choice between federalism and independence. I want to open the fundamental debate on these economic and social options. It's time that they were presented clearly and directly. If a choice has to be made, it is essential that each and every person base his decision on full information.

In launching a debate which will see proponents of the two options alternating in their presentations, perhaps it is useful to establish conditions for this kind of exercise. The objective is a clear debate that takes place on the basis of reliable information. Those of us involved in it should be careful to avoid half-truths, distortions of facts or the use of concepts, terms and expressions that are poorly defined or not defined at all. What we need above all is clarity and truth.

We are entering a very difficult debate, this examination of the advantages and disadvantages of federalism and independence. What we have is a comparison between the real experience of Confederation and the unrealized state of independence. It could very well lead us to nothing more than a comparison of practical complaints about Canada as it is and theoretical advantages yet to be experienced from separation. Obviously, if the debate follows that course we will have two conversations taking place on different levels, meeting nowhere and informing no one. All comparisons of this kind are illusory.

For my own contribution today, I plan to stick to a discussion of three matters, in this order: first, I will try to clear away some major confusion already introduced, then I will sketch what I believe to be

the essence of our federation and, finally, I will draw to your attention the risks implied by the option described as "sovereignty-association."

In this debate we should avoid carefully the temptation to make what I would call "projections into the past." It's the easiest thing in the world to be a prophet of a "future" whose events and consequences we know perfectly. Nothing is easier than to deliver a dissertation on what should have been done and shouldn't have been done 50, 75 or 100 years ago. What can that do for us? It can only tell us that our fathers and grandfathers developed certain industries and not others, that they used the information at their disposal at the time, and made their judgments as best they could. Undoubtedly, they did not see perfectly into the future; will we be any better when we are rated 50 years from now?

What's more, we shouldn't judge the past by today's standards. How often do we hear today that the federal government has not solved regional disparities in this country? But think about it: who spoke or wrote in these terms 50 or 100 years ago? Hardly anyone, since the subject has emerged as a national concern only since the Second World War. Furthermore, the economic development of a region is not, and hasn't been in the past, the product of decisions and actions of a single government. It's decisions and actions of individuals, businesses, and several levels of government which shape our development. One government alone cannot carry responsibility for everything that we don't like about our development. And let's remember that in the past the atmosphere was not at all favorable to economic intervention by government. Public authorities were expected to establish certain general rules; beyond that, the most popular government was the one which made itself conspicuous by its absence. Specific interventions for the benefit of particular industries are a quite recent phenomenon. Finally, the structures inherited from the past are not transformed in five or ten years. It takes a lot more time and effort to change our fundamental and deeply rooted economic structures.

It seems to me that these requirements for a clear and constructive debate are reasonable and sensible. Will they be observed? Well, we can hope so. But we will have to be prepared if they are not. In fact, the trend today is to look for a single cause for everything: if things are not going right and you don't like it, blame Confederation. This argument, as superficial as it is simplistic, has already been made. And it will be repeated tirelessly, to the point of exhaustion, through the whole pre-referendum period.

So we can probably expect to hear that because of Confederation the industrial revolution in Quebec was stunted. People will remind you that Quebec missed a decisive phase of this industrialization, that is, development of iron and steel, which later gave birth to many engineering, machinery and transportation industries. The federal policy blamed will be the "National Policy", which was in fact the establishment of tariff protection for all industry in all parts of the country.

Tariff protection in every country in the world has the same characteristics, and ours is no exception: it affords higher protection according to the degree of processing of the product.

Once protection was established, iron and steel industries began developing rapidly in southern Ontario. Why there and not somewhere else? Because the industry could draw on coal and iron ore from mines in Pennsylvania and Minnesota. Transportation costs gave a marked advantage to any establishment which was not too far from these two sources of raw materials.

At that time, neither coal nor iron ore had been found in Quebec. It was much farther than Ontario from the American source of supply and the transportation costs were much greater. The iron ore mines of Quebec were discovered much later and exploited only in the 1950s. In these circumstances, if we are to understand the current criticism of the federal government, it is not so much that it did not establish an iron

and steel industry in Quebec, but that it permitted establishment of these activities in Ontario. To that, I can only ask in turn: why would we be happier if Canada had never had an iron and steel industry?

The tariff protection provided by the National Policy has been used equally by Quebec and in Quebec's favor. Before the National Policy tens of thousands of Quebecois left the province year after year to go to work in the consumer goods industries of New England. After tariff protection was applied, these same industrial activities were established rapidly in Quebec and began producing textiles, clothing and shoes for the whole Canadian market. It was a simple and reasonable development strategy for businessmen. Why import British or U.S. consumer goods when we could produce them ourselves? And that is what happenend. Other industries, based on natural resources like wood, developed at the same time because Quebec was well situated geographically to produce for Britain, our main market at the time.

It was difficult if not impossible to foresee at the time that this kind of industrial specialization would run into trouble 100 years later, the trouble we have today. The development strategy pursued by Quebec companies at the end of the last century has been followed since then by many countries which were either semi-developed or in the early stages of development. With production costs far lower than ours, these countries are in position to threaten the very existence of some industries in this country. There is no point today in blaming Confederation by saying that Quebec is industrialized but has to make do with "weak industries."

The federal government didn't choose the industries in each region; the federal government did not bring them into being. The federal government created a protected trade area which permitted the establishment of a variety of enterprises located anywhere within that area. Entrepreneurial skills, economic arithmetics and the willingness to take risks did the rest. Today, government intervention has become much more direct and specific: in the consumer goods industries

I have mentioned, this intervention has to take the form now of rescuing certain industries. And the government accepts this responsibility. But the fact that the problem is now posed in these terms is not the fault of the federal government.

More recently, the federal government has been criticized for having opened the St. Lawrence Seaway because, it is alleged, this action served only to permit Ontario's industrial production to be dumped in Quebec. As you know, navigation of the Seaway is quite possible in both directions: from Ontario to Quebec but also from Quebec to Ontario. If it is felt that Ontario has had a better deal from the Seaway than Quebec, it is time that we tried to discover the basic reasons for this problem.

But the record does not permit us to conclude that the Seaway has been a vehicle for development of manufacturing in Ontario, to the detriment of Quebec. As recently as 1976, 92 per cent of total traffic in both directions constituted raw materials, particularly grain and iron ores. Manufactured goods and general merchandise represented only 8 per cent of traffic made up mainly of steel industry output from American ports and overseas sources. Moreover, to think that the Seaway allows Ontario manufacturers to flood Western Europe and the east coast of the U.S. with their products is to express extraordinary optimism about their competitiveness. I should add that between 1957 and 1975, international traffic of Ontario ports increased only 20 per cent, while traffic of Quebec ports increased 155 per cent.

In evaluating the impact of the Seaway, we should also recall that its construction represented capital expenditures of many hundreds of millions of dollars in Quebec, and that Quebec shipyards benefitted from contracts of some $250 million for the construction of vessels designed specifically for the Seaway. To this can be added the establishment in Quebec of important grain handling facilities and the major contribution made by the Seaway to development of the North Shore.

These are just a few examples of the half-truths which have already appeared. There are dozens of others, all presented in order to suggest that Confederation is at fault. It's too bad that we have to spend so much time to set the record straight. I am not saying that all these distortions are or will be intended. When you believe strongly in something, there is a natural tendency to see only those things that prove your theory and to be blind to anything that contradicts your comfortable possession of "the truth."

In other respects, where provincial responsibilities are directly at issue, the theme is somewhat different. We see the variant: "We don't have enough power to act effectively." This is only another way of saying that Confederation is to blame. What we are being asked to believe is really this: in a federal system, certain powers are exercised by the federal government and others by provincial governments. To say provinces don't have enough power is really to say that the central government uses its power badly and that if enough power had been given to the Government of Quebec, it would have been put to better use.

Has Confederation caused all our social and economic problems? Has it really been an uninterrupted series of conspiracies and under-the-table deals to keep Quebec enslaved and underdeveloped and to favour economic and social development in other regions of Canada? Let me cite briefly the following statement:

> ...now, at long last, Quebec is a fully developed society. It has over six million people, 82 per cent of whom are French by descent, language and cultural heritage. Montreal, our metropolis, is the second largest French city in the world. Our gross national product would make us twenty-third among the nations of the world, and eleventh on a per capita basis.

So spoke René Lévesque on January 25, 1977 to the Economic Club of New York. The situation is evidently not as black as we are led to believe. A small population rooted on the banks of the St. Lawrence, poor, rural and withdrawn into itself, has succeeded in transforming itself into an

important population, into a developed society which has attained a high level of well-being. This society, highly diversified today, has never renounced its desire to live and work in French. Clearly, the federal system has not prevented this; on the contrary, it has encouraged this development while ensuring Quebec the possibility of expanding beyond its borders. And, quite obviously, the story is not yet over. Other developments will take place and Canadian federalism will be, as it has been to now, flexible enough to accommodate them.

As we approach the referendum on the question of federalism or independence, it is essential that the alternatives be defined precisely. Ideally, we should have a constitutional definition, together with a careful analysis of the benefits and costs of federation as it exists and of sovereignty-association. And, still ideally speaking, each person should be able to draw up his own balance sheet. Obviously, this is not practical. This places a very great responsibility on certain people and certain institutions in our society to make these analyses and to inform their fellow citizens of their results as objectively as possible. The best of our intellectuals and our communicators should undertake this work to the best of their capacity and their conscience.

It is obviously not my intention to go into such an analysis today or to present the results of analyses already done elsewhere. As I said earlier, I do want to sketch what I believe to be the essential features of federalism and to draw your attention to the risks that lie in the option of sovereignty-association.

From an economic and social perspective, the main benefits flowing from federalism are associated with the existence of a large and integrated country. The great diversity of resources at the disposal of a large country is certainly an element of security and stability for us all and represents a very important consideration. The existence of major and diversified markets, certainly larger and more diversified than those of a single region taken in isolation, permits more specialized and efficient production in many sectors, and opens up the advantages of

economies of scale. Because production can be organized in the most efficient way, the allocation of resources or factors of production is normally more rational than it could be in a smaller economic area.

A larger and stronger economic unit also yields stronger negotiating power and delivers better trading opportunities. And a bigger and broader economy represents a reservoir of savings both larger and more stable than a smaller economy.

A large and integrated economy will include some regions that are highly developed and others less so. Some of them may be rich in natural resources, others poor. The federal government taxes each region and each individual according to his income and his capacity to pay. It redistributes these revenues not only in the form of equalization payments to some provincial governments, but also as transfer payments to individuals and families most in need. Only a federal system can practise economic solidarity on this scale.

We have only to compare the long-term results achieved by the Canadian economy with those of other industrialized countries to establish very positive proof in terms of overall growth, monetary stability and social progress. Finally, thanks to the division of jurisdictions in Canada and to certain essential economic powers provided to the federation, the co-ordination of policies takes place effectively. This co-ordination is the strongest point in a federal system. It is why, despite all the difficulties along the way, the European Common Market aspires so much to the completion in a federal system of its years of efforts to achieve economic integration.

By its very nature, the federal system also implies costs, and by that I mean costs in the largest sense of the term. Every federation involves a kind of ongoing trade-off between varying regional interests that make it up, and it follows that federalism is and will remain a delicate exercise of moderation and balance. Such arbitration implies consultations, long and difficult negotiations, and often frustrations, especially when

the parties don't get everything they would like to have. But let's not forget that in the wake of the spectacular increase of regional aspirations in recent years, unitary countries are also encountering this problem of trade-off to a growing degree.

To grasp the essence of federalism, the weighing of benefits and costs has to be expanded to include non-economic factors. In terms of individual liberties and tolerance, Canadian federalism presents a record equal and often superior to that of many developed countries with unitary structures. During the period before our own quiet revolution in Quebec, liberty of expression in cultural matters was assured by a series of federal institutions, notably the CBC, the National Film Board, the Canada Council and others. But we shouldn't forget that this period in Quebec life ended less than 20 years ago.

When we turn to consider the other alternative, we find a real dilemma. "Sovereignty-association" could not be more ambiguous: the two terms of this double concept are not complementary but contradictory. Putting the accent on the first word, sovereignty, robs the second of any content. If you emphasize the second, association, you reduce significantly the meaning of the first. Insist on sovereignty, and you are talking about independence, pure and simple. Insist on association, and you have embraced a federal regime.

In order to evaluate the concept of sovereignty-association, the government of Quebec should come clean and tell us what sovereignty and what association it is talking about. As long as that explanation is not given, informed choice is impossible. No one knows what changes will be proposed, no one knows what the consequences will be. Can we undertake even the most elementary cost-benefit analysis with an option so imprecise?

And that's not all. If the Parti Québécois can promise independence, assuming it is approved by the population of the province, it can not promise association. It can only propose it, and it is up to the other

provinces to accept or reject the proposition. If they reject it, the option will be reduced to independence and it will have to take place without association.

To support its argument that the other provinces won't reject association, the Parti Québécois often resorts to the contention that the others need Quebec at least as much as Quebec needs them. In other words, a picture is drawn of a certain equilibrium of dependence, of forces in play. Unfortunately, the figures simply do not support the argument.

Statistics issued regularly tell us the destinations of goods exported by all provinces. More than half of the goods manufactured in Quebec are absorbed by Quebec itself, 15 per cent are exported to other countries and some 30 per cent go to other regions of Canada, including 20 per cent to Ontario.

Supposing that Quebec separates and that the other provinces do not accept an economic association, Quebec will lose free access for almost a third of its manufacturing output.

What would the other regions lose? Quebec represents a market for only 11 per cent of Ontario's manufacturing. In fact Ontario sends less to Quebec than to the other eight provinces. Quebec buys 9 per cent of the production of the Atlantic provinces, 6 per cent of the production of the Prairies and less than 2 per cent of the production of British Columbia. The extent of dependence is therefore very different. In fact, Quebec is more dependent on the others than they are on Quebec. And let's recognize as well that half of Quebec's exports to other provinces are from the so-called soft industries, that it to say sectors which benefit from the highest protection afforded by the Canadian tariff. Obviously, the other provinces would be better off to buy elsewhere at much lower prices. It's the Canadian tariff, and its acceptance by all provinces, which makes possible most Canadian sales of Quebec products.

Given this pattern of transactions, it is not difficult to see that in the event Quebec could not establish an association with Canada, the economic loss from sovereignty-association would be very great - much more than for the other provinces. Whatever some people may say, there is no balance of losses.

The PQ bases much of its case on the bold and thoughtless claim that the rest of the country can only accept what Quebec decides to propose, What happens if they are wrong? Surely in evaluating the option of sovereignty-association it is impossible to ignore this risk of rejection, and essential that the risk be identified with the other costs of that option.

To this we must add the fact that any major change, any abandonment of one system for another, would involve major transitional costs. No major institutional change can be made without difficulty. The costs involved have to enter into the final assessment of advantages and disadvantages.

And let's recognize that we aren't "there". We have to face a wave of uncertainty about the future and it is clear that uncertainty has already brought on transition costs by anticipation. These costs are heavily concentrated in Quebec and much less in other regions of Canada. It is not relevant to this debate to know the extent of these costs to date; it is enough to know that they have begun to show up. As economists, you know well that any uncertainty can inhibit growth and dampen the climate for investment.

Just a few days ago we were confronted with the problem of the head office move by Sun Life. The Prime Minister and I have tried to limit the damage as much as possible and we are satisfied that we have done so. Nevertheless, Mr. Lévesque has found it to his advantage to accuse us of plotting with Sun Life directors in order to force change in Quebec's language policy. This is nonsense. This kind of accusation indicates

dangerous thinking by the Government of Quebec, a desperate attempt to uncover plots behind private decisions which have resulted directly from the uncertainty facing the community.

In spite of such accusations, we are doing all we can to avoid the worst. It is certainly not in the interests of Quebec or the people of Montreal to lose the city's important economic and financial role. And what a tragic piece of irony that the effort has to be made not only without the Government of Quebec, but against that government.

Accusations that we are waging economic terrorism are ridiculous. It's not economic terrorism to recognize squarely the difficulties we have to face; it's showing realism and plain common sense.

Moreover, the longer the period of uncertainty, the greater the "anticipation costs" will be. When we talk about the prospects of not one but several referendums, we have to ask whether the Government of Quebec is really aware of the economic consequences imposed on the people of Quebec by a period of uncertainty so prolonged, and prolonged deliberately.

Before the choice, two most fundamental questions have to be asked. First: will Quebec really improve its chances of raising its economic, social and cultural well-being by leaving Confederation? Second: will political independence permit Quebec to resolve its economic and social problems more effectively?

My reply to these two questions is a categorical no. While running considerable risks, Quebec cannot hope to improve its well-being significantly, or to benefit from a freedom of action that makes the solution of its problems any easier. If we think about our history, we can see that it is not the power to act that our governments have lacked. If anything, they have sometimes lacked the will to act. In preparing for the referendum, the answers to these critical questions must take account of all the facts at hand.

Finally, I want to note the dangers in store for those who labour under what I might call "the great illusion of politics." By that I mean the unlimited belief in the capacity of political action alone to resolve any problem. Through political action we can gradually alter the direction of things. But we cannot expect even sweeping political change - by itself - to eliminate major social or economic problems. Politicians can't deliver miracles, and never could.

EXTRACTS FROM SPEECHES BY THE PROVINCIAL PREMIERS ON ECONOMIC ASPECTS OF CANADIAN FEDERALISM

THE WEST

Declaration of Western Premiers, 5-6 May 1977, Brandon.

> The strength of Canada and the rationale for Canada is founded upon each of the regions complementing one another and balancing the weaknesses and strengths. These conditions change over time and sacrifices are involved but the commitment to one country is essential if the benefits of Confederation are to endure over time and through all circumstances.

ONTARIO

Address by William G. Davis to the Montreal Canadian Club, 21 March 1977

> We, in Ontario, believe that Quebec can serve the French Canadian people, their culture, language and aspirations, within Canadian Confederation.
>
> Canada cannot expect to survive unless part of that survival is a commitment to the survival of the French Canadian people.
>
> A nation that is productive economically is viable politically; Canada is far more productive and equitable than any of its parts.
>
> We see in Canada the ultimate framework for the cultural, economic and political self-fulfillment of each and every citizen who shares this nation with us.
>
> The political and economic integrity of this nation has always been Ontario's major political and economic purpose.

THE ATLANTIC PROVINCES

1) An address by Alexander R. Campbell to the Atlantic Provinces Chambers of Commerce, 7 June 1977, Charlottetown

> We in the Maritimes have experienced some injustices too! We too have been dominated by an industrial world that has made many decisions unsympathetic to Prince Edward Island culture and unsympathetic to the Prince Edward Island way of life. In relative terms, Prince Edward Island is weaker than when it joined Confederation in 1873. We have lost more economically from Confederation than has Quebec.
>
> Separation will not help Quebeckers gain any more control nor to change things any more than it is possible to make such changes within Confederation.
>
> Quebekcers can still be Quebeckers within Canada, provided accommodations are made for linguistic and cultural integrity.

2) Speech by Richard B. Hatfield to the Woodstock Rotary Club, Woodstock, NB, 4 April 1977

> The vision which seized the imagination of the Fathers of Confederation was of a society composed of distinct regional, cultural, economic and linguistic communities - united for mutual benefit and support and committed to mutual respect and mutual concern.
>
> Each minority community must never forget that its survival is bound up in the survival of all the others.
>
> If there is no commitment in Canada to support the continued vitality of the French language and culture, it will be a betrayal of the spirit of Confederation; just as it would be a betrayal of that spirit if there were no national commitment to our claim in the Maritimes to a share of the national prosperity.
>
> What I am saying is that the Québécois have to be convinced that the French fact can continue to develop and flourish in Quebec within Canada and not be threatened by the English majority in Canada and North America.

Budget Paper E

Federal Fiscal Redistribution Within Canada

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Federal Fiscal Redistribution Within Canada

Introduction

An important element in the current debate on the merits of Confederation is the fiscal impact of the Government of Canada upon the different provinces. In 1970, Ontario Treasury measured the fiscal impact of the federal government in the Province of Ontario, and showed the importance of this province as a generator of wealth and fiscal resources for the entire country.[1] Recently, the Government of Quebec published a study designed to demonstrate that the very existence of the federal government has cost Quebecers "the impressive sum of $4.3 billion" over the last 15 years.[2] The Government of Canada subsequently released a paper which took issue with Quebec's methodology and interpretations, and showed that the $4.3 billion was "an entirely fictitious financial imbalance".[3]

Until a comprehensive study is done, the arguments about financial gains and losses from Confederation will continue. This Budget Paper outlines the work Ontario has undertaken on the fiscal redistribution among provinces arising from the revenue and expenditure programs of the federal government and the operations of its Crown Corporations. It confirms that Canada's federal system is working to redistribute resources from the rich to the poorer provinces to the ultimate benefit of all Canadians.

I Three Methods of Measuring Provincial Gains and Losses

There are a number of ways of measuring the fiscal impact of the Government of Canada upon the various provinces. One method is to break down the federal government sector of Gross National Product, as reported in the *National Accounts*, into provincial components in order to show the deficit or surplus attributable to each province in each calendar year. As documented in the recent federal paper, however, the National Accounts method has many deficiencies when used to

[1] See, The Honourable C. A. MacNaughton, "The Structure of Public Finance in Ontario", *1970 Ontario Budget* (Toronto: Department of Treasury and Economics, 1970).

[2] See, *Quebec Economic Accounts* (Quebec City, Department of Industry, Trade and Commerce, March, 1977).

[3] See, *Preliminary Observations on the Economic Accounts of Quebec* (Ottawa: Federal-Provincial Relations Office, Government of Canada, April 5, 1977).

draw up an interprovincial balance sheet of the federal government's fiscal and economic activities.[4] A better method is to distribute among the provinces the revenue and expenditure of the Government of Canada for each fiscal year, as reported in the *Public Accounts of Canada*. This latter method is a more comprehensive and reliable approach. It accounts for every dollar actually taken in and spent by the Government of Canada; it includes federal expenditure abroad which must be paid for by Canadians; and the numbers are not subject to periodic revision as are the National Accounts data. Whichever method is used, these obviously are tasks for Statistics Canada to ensure that a common methodology is employed and comparable results are obtained.

A third method is to measure the differential capacity to raise federal revenue in each province, using the same rules employed in the *Equalization Formula*. This method covers only the revenue side of the federal government equation, but it has the advantage of using data which is accepted by all provinces as a fair basis for distributing equalization payments. Ontario's findings on fiscal redistribution, under each of these methods, are set out in the following sections.

II Ontario's Surplus Contribution Since 1961 (National Accounts Basis)

Since 1974, Ontario's annual Budget has shown the proportion of the total tax dollar which accrues as a surplus to the federal government from its operations in the province. This net contribution to Canada has been calculated using essentially the national accounts approach, so that it can be taken into account in determining the appropriate Provincial stabilization policy.[5] However, these Ontario estimates incorporate significant improvements on the data compiled by Statistics Canada, such as a realistic distribution of the federal government's indirect taxes.

Table 1, facing, sets out the federal fiscal impact in Ontario from 1961 through 1976, using the national accounts approach. It shows that in every year the federal government collects significantly more in taxes from Ontario than it returns in spending. This federal surplus from Ontario has increased in size during periods of fast economic growth and dropped back in magnitude during periods of recession. Over the entire 16 year period, however, the federal government account within Ontario has generated a cumulative surplus of more than $26 billion for redistribution to other regions of Canada. The Government of Ontario has consistently supported this reallocation of resources, in order to reduce regional disparities and to strengthen Confederation.

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[4] *Ibid.*

[5] See, The Hon. W. D. McKeough, "Fiscal Policy Management in Ontario", *1972 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).

National Accounts Measure of the Federal Government Sector in Ontario
($ million)

Table 1

	Revenue	Expenditure	Surplus from Ontario
1961	3,044	2,370	674
1962	3,109	2,553	556
1963	3,276	2,627	649
1964	3,751	2,752	999
1965	4,216	2,911	1,305
1966	4,627	3,352	1,275
1967	5,007	3,774	1,233
1968	5,697	4,278	1,419
1969	6,735	4,716	2,019
1970	7,207	5,350	1,857
1971	7,998	6,036	1,962
1972	9,051	6,933	2,118
1973	10,389	7,763	2,626
1974	12,705	9,585	3,120
1975 (est.)	13,519	11,601	1,918
1976 (est.)	15,475	13,049	2,426
Cumulative total	115,806	89,650	26,156

Note: See Appendix 1 for complete details of revenue and expenditure items, data sources and methodology.

III Provincial Distribution of Federal Revenue and Expenditure (Public Accounts Basis)

On July 22, 1964, the Minister of Finance tabled a reply in the House of Commons, which disaggregated the Public Accounts revenue and expenditure of the Government of Canada (for 1961-62) into components for each province. This historic study showed that for every province, except Ontario, the federal account incurred a deficit in that fiscal year. Ontario's research has followed up on that original study in order to update the findings and analyze the long-term trends in fiscal redistribution within Canada.

Ontario's research differs from the original federal study in three important respects—methodology, scope and number of years covered. The methodology Ontario has used seeks to minimize subjective judgements or proxy distributions and is deliberately structured to generate the least favourable results for Ontario. In other words, it generates low federal revenue figures and high federal expenditure figures in Ontario, thereby understating the size of the surplus from Ontario which helps finance federal aid to other provinces. The scope of Ontario's study includes federal Crown Corporations because of the

uneven provincial distribution of these important federal activities.[6] Finally, the Ontario research embraces three fiscal years—1961-62, 1968-69, and 1975-76.

- The 1961-62 fiscal year was redone in order to compare Ontario's results with the already published results.
- The 1968-69 fiscal year was selected because the federal budget was close to balance in that year.
- The 1975-76 fiscal year was selected to determine the most up-to-date findings.

The allocation methodology Ontario has followed is set out in Appendix 2. Detailed tables of the federal revenue and expenditure distributions for the three fiscal years and a complete reconciliation with the totals shown in the *Public Accounts of Canada* are provided in Appendix 3.

Ontario's findings, using the public accounts measure of fiscal impact, are summarized in Table 2 below, and in greater detail in Tables 3, 4 and 5. The results for 1961-62 confirm that Ontario generated a large surplus on federal account, but also show a modest surplus accrued in Quebec. By 1968-69, three provinces were generating a surplus on federal account—Ontario, British Columbia and Alberta—while the remaining seven provinces were all net beneficiaries. In 1975-76, Alberta passed Ontario in terms of surplus fiscal generation, largely because of the federal export tax on oil and gas. In that year, the total contribution by the three surplus provinces amounted to almost $3 billion. The deficits on federal account for the remaining provinces,

Public Accounts Surplus or (Deficit) in each Province from Federal Government Activity — Table 2

($ million)

	1961-62	1968-69	1975-76
Newfoundland	(124)	(206)	(666)
Prince Edward Island	(41)	(139)	(230)
Nova Scotia	(310)	(400)	(1,369)
New Brunswick	(203)	(337)	(866)
Quebec	101	(190)	(2,252)
ONTARIO	370	820	1,080
Manitoba	(139)	(209)	(525)
Saskatchewan	(194)	(144)	(305)
Alberta	(135)	2	1,364
British Columbia	(72)	180	503
Yukon and Territories	(26)	(45)	(286)
CANADA	(773)	(668)	(3,552)

[6]The 1961-62 study tabled by the Minister of Finance recognized the importance of including federal Crown Corporations "to provide a complete picture of the federal influence on the economy. . . . " The April 5 federal rebuttal of the Quebec study also pointed out the importance of including federal Crown Corporations in drawing up a realistic financial balance sheet for federal activity in Quebec.

Federal Fiscal Redistribution within Canada, 1961-62 Table 3
($ million)

	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	101	225	(124)
Prince Edward Island	24	65	(41)
Nova Scotia	224	534	(310)
New Brunswick	167	370	(203)
Quebec	1,881	1,780	101
ONTARIO	3,251	2,881	370
Manitoba	380	519	(139)
Saskatchewan	331	525	(194)
Alberta	573	708	(135)
British Columbia	797	869	(72)
Yukon and Territories	19	45	(26)
CANADA	7,748	8,521	(773)

Federal Fiscal Redistribution within Canada, 1968-69 Table 4
($ million)

	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	260	466	(206)
Prince Edward Island	39	178	(139)
Nova Scotia	404	804	(400)
New Brunswick	279	616	(337)
Quebec	3,077	3,267	(190)
ONTARIO	5,985	5,165	820
Manitoba	604	813	(209)
Saskatchewan	525	669	(144)
Alberta	1,100	1,098	2
British Columbia	1,582	1,402	180
Yukon and Territories	49	94	(45)
CANADA	13,904	14,572	(668)

however, had escalated dramatically by 1975-76, reaching $2.2 billion for Quebec and $6.5 billion for all the fiscally weak provinces together. The national oil price subsidy alone accounted for $1.6 billion of this West to East redistribution, while equalization payments accounted for a further $1.9 billion.

The interprovincial redistribution that is achieved through the Government of Canada's fiscal programs and the activities of its Crown Corporations is displayed in another way in Table 6. It shows the percentage of total federal revenue that is collected in each province versus the percentage of total federal expenditure that is spent in each province. In 1975-76, for example, the three surplus provinces—Ontario, British

Federal Fiscal Redistribution within Canada, 1975-76 — Table 5

($ million)

	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	576	1,242	(666)
Prince Edward Island	101	331	(230)
Nova Scotia	1,016	2,385	(1,369)
New Brunswick	793	1,659	(866)
Quebec	7,387	9,639	(2,252)
ONTARIO	14,059	12,979	1,080
Manitoba	1,440	1,965	(525)
Saskatchewan	1,467	1,772	(305)
Alberta	4,210	2,846	1,364
British Columbia	4,547	4,044	503
Yukon and Territories	125	411	(286)
CANADA	35,721	39,273	(3,552)

Columbia and Alberta contributed almost two-thirds of national revenue while receiving back only half of national spending. Quebec, by comparison, accounted for 21 per cent of the total federal revenue but received back almost 25 per cent of total federal spending. This comparison of the shares paid and received by each province highlights the fiscal redistribution that will occur even when the Public Accounts are in balance for Canada as a whole.

Share of Federal Government Revenue and Expenditure in each Province — Table 6

(per cent)

	1961-62		1968-69		1975-76	
	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure
Newfoundland	1.3	2.6	1.9	3.2	1.6	3.2
Prince Edward Island	.3	.8	.3	1.2	.3	.8
Nova Scotia	2.9	6.3	2.9	5.5	2.8	6.1
New Brunswick	2.1	4.3	2.0	4.2	2.2	4.2
Quebec	24.3	20.9	22.1*	22.4*	20.7*	24.5*
ONTARIO	42.0	33.8	43.0	35.5	39.4	33.1
Manitoba	4.9	6.1	4.3	5.6	4.0	5.0
Saskatchewan	4.3	6.2	3.8	4.6	4.1	4.5
Alberta	7.4	8.3	7.9	7.5	11.8	7.2
British Columbia	10.3	10.2	11.4	9.6	12.7	10.3
Yukon and Territories	.2	.5	.4	.7	.4	1.1
CANADA	100.0	100.0	100.0	100.0	100.0	100.0

*Reflects the special fiscal arrangements negotiated with Quebec in 1964-65. Under these special arrangements, certain federal spending transfers to Quebec were replaced by a reduced federal income tax in that province.

IV Federal Taxation Capacity in each Province

Perhaps the most accurate and objective method for measuring the revenue side of the federal fiscal equation in each province is provided by the *Equalization Formula*. This method uses data which all provinces have accepted for purposes of calculating equalization payments. It measures the per capita tax base of each province to determine whether there is an excess or a deficiency in relation to the national average. Though the *Equalization Formula* is based on provincial sources of revenue, it is directly relevant to federal tax capacity as well, because in the major tax fields the federal and provincial tax bases are identical or closely comparable. The equalization indicators for such revenue sources as personal income tax, corporate income tax, sales tax, tobacco, fuel and alcohol taxes, therefore, reveal the differential capacity to raise federal revenues in the different provinces.

Table 7 compares the revenue-raising capacity of the federal government in each province, using equalization data for 1975. It confirms that Ontario, Alberta and British Columbia are the only provinces with an above-average tax base, hence the capacity to generate above-average revenue yields to Ottawa. It also shows unequivocally that all of the other seven provinces receiving equalization payments have a below-average federal tax base.[7] In 1975, the federal capacity to raise revenue in Quebec was 16 per cent lower than in the rest of the country.

Per Capita Tax Bases as a Percentage of National Average, 1975 — Table 7

	PIT	CIT	Sales Tax	Fuel Tax	Alcohol	Total Personal and Business Income
Newfoundland	56.18	41.48	77.27	72.36	76.03	51.63
Prince Edward I.	49.59	35.74	62.22	94.92	98.53	51.19
Nova Scotia	68.26	50.53	75.75	90.36	94.12	64.67
New Brunswick	63.91	54.61	88.31	98.05	75.41	64.48
Quebec	89.01	81.84	88.41	97.85	81.08	86.11
Ontario	114.20	122.56	104.86	102.32	105.28	117.06
Manitoba	84.06	84.33	88.65	92.45	109.73	90.58
Saskatchewan	90.07	64.43	98.37	105.54	103.06	81.28
Alberta	109.43	146.54	129.63	117.56	112.13	125.55
British Columbia	116.22	100.99	114.63	95.99	129.89	104.70
National Average	100.00	100.00	100.00	100.00	100.00	100.00

[7] Appendix 4 shows this "deficiency" in four other ways: each province's share of the national tax base versus its share of national population in 1974; provincial per capita revenue in 1966 and 1971; Equalization as a per cent of each province's total revenue in 1971-72; and, total federal transfer payments as a per cent of each province's revenue in 1971-72.

A Decade of Equalization Payments to Quebec — Table 8

	Amount	Per cent of Total Equalization
	($ million)	(%)
1967-68	269	48.7
1968-69	387	54.6
1969-70	431	50.7
1970-71	420	47.5
1971-72	453	48.2
1972-73	532	49.7
1973-74	728	49.1
1974-75	908	53.2
1975-76 (est.)	1,000	53.0
1976-77 (est.)	1,123	52.5
Last 10 years	6,251	

Moreover, this federal revenue-raising deficiency in Quebec has persisted over many decades, as evidenced by the stream of equalization payments to that province shown in Table 8. On the basis of this evidence alone, it is clearly impossible for the Government of Canada to raise a disproportionate share of its revenue in Quebec.

The $6 billion in equalization payments that have flowed into Quebec over the past decade alone represents a rock-bottom and incontrovertible measure of that province's financial gain from Confederation. As the Prime Minister of Canada said at the First Ministers' Conference in Ottawa on November 15, 1971:

> "Clearly, equalization is now a cornerstone of provincial revenues for seven of our ten provinces."
>
> " . . . the system of federal payments to equalize provincial revenues and expenditures has steadily evolved over the past several decades- to the point where our system is probably unequalled in any other federal country".

Under any alternative to Confederation, this immense inter-regional equalization of resources cannot simply be taken for granted.

Conclusion

The preceding pages have set out Ontario's research to date on the fiscal redistribution among provinces that results from the revenue and expenditure operations of the Government of Canada. The *National Accounts* analysis shows that, on its operations in the Province of Ontario, the federal government runs up a large surplus, year-in and year-out. It is difficult to conceive of circumstances, therefore, in which the second largest province in Canada could also generate a federal surplus. Indeed, to conclude that Quebec does not reap large fiscal benefits from Confederation, one must ignore economic realities and

define away the true dimensions of federal activity in that province—activity which is paid for by all Canadians.

The *Public Accounts* analysis shows that three provinces—Alberta, British Columbia and Ontario—are net contributors to the national treasury, while the remaining seven provinces are net beneficiaries. It is only through the federal system that this redistribution from contributors to beneficiaries is possible.

Finally, the *Equalization* analysis confirms that a province which has a deficiency in its own revenue-raising capacity, cannot possibly pay more than its fair share of federal taxes. Rather, it is because of the very existence of Equalization, that the fiscally weak provinces have made remarkable progress in raising their standards of public services up to the national average.

Appendix 1

National Accounts Breakdown of Federal Government Revenue and Expenditure in Ontario

Table 1-1

($ million)

	1961	1962	1963	1964	1965	1966	1967	1968	1969
REVENUE									
Direct Taxes, Persons	1,213	1,160	1,212	1,392	1,557	1,696	1,974	2,401	3,045
Direct Taxes, Corporations*	572	564	624	679	735	789	773	952	1,087
Direct Taxes, Non-residents*	49	54	56	60	74	91	96	94	106
Indirect Taxes*	1,028	1,139	1,163	1,375	1,592	1,752	1,818	1,863	1,980
Investment Income*	148	156	182	204	213	250	293	330	453
Capital Consumption Allowance	34	36	39	41	45	49	53	57	64
Total Revenue	3,044	3,109	3,276	3,751	4,216	4,627	5,007	5,697	6,735
EXPENDITURE									
Current Goods and Services	1,005	1,040	1,019	1,095	1,133	1,330	1,434	1,594	1,753
Transfers to Persons	680	702	734	783	812	885	1,040	1,168	1,270
Subsidies	83	101	105	112	114	148	165	169	133
Capital Assistance*	6	13	25	31	30	22	26	27	31
Interest on Public Debt*	271	297	318	340	362	440	478	542	614
Transfers to Other Governments*	203	303	332	302	364	403	493	630	774
Gross Capital Formation	122	97	94	89	96	124	138	148	141
Total Expenditure	2,370	2,553	2,627	2,752	2,911	3,352	3,774	4,278	4,716
SURPLUS(+) or DEFICIT(−)	674	556	649	999	1,305	1,275	1,233	1,419	2,019

	1970	1971	1972	1973	1974	1975	1976	Cumulative 16 Years
REVENUE								
Direct Taxes, Persons	3,493	3,876	4,340	5,038	6,076	6,834	8,111	**53,418**
Direct Taxes, Corporations*	1,012	1,110	1,305	1,586	2,231	2,278	2,267	**18,564**
Direct Taxes, Non-residents*	120	124	129	141	194	209	227	**1,824**
Indirect Taxes*	1,985	2,218	2,495	2,780	3,221	3,161	3,675	**33,245**
Investment Income*	527	595	696	746	866	901	1,040	**7,600**
Capital Consumption Allowance	70	75	86	98	117	136	155	**1,155**
Total Revenue	7,207	7,998	9,051	10,389	12,705	13,519	15,475	**115,806**
EXPENDITURE								
Current Goods and Services	1,897	2,092	2,332	2,673	3,206	3,516	4,041	**31,160**
Transfers to Persons	1,446	1,654	2,113	2,351	2,914	3,589	3,858	**25,999**
Subsidies	118	109	127	175	417	499	428	**3,003**
Capital Assistance*	34	61	65	82	70	101	113	**737**
Interest on Public Debt*	728	777	894	1,010	1,195	1,426	1,835	**11,527**
Transfers to Other Governments*	986	1,153	1,202	1,227	1,453	2,090	2,388	**14,303**
Gross Capital Formation	141	190	200	245	330	380	386	**2,921**
Total Expenditure	5,350	6,036	6,933	7,763	9,585	11,601	13,049	**89,650**
SURPLUS(+) or DEFICIT(−)	1,857	1,962	2,118	2,626	3,120	1,918	2,426	**26,156**

Source: Statistics Canada unpublished data for 1961-74, except for * items which are more appropriate estimates by the Ontario Treasury. For example, indirect taxes are allocated by the province's proportion of the value of shipments in all manufacturing industries (for excise duties and sales taxes) and by the proportion of retail trade (for import duties), rather than by point of landing. Direct taxes on corporations and non-residents are derived from *Taxation Statistics*. On the expenditure side, interest on the public debt is apportioned by the ratio of GPP to GNP (10-year moving average) and government transfers are from the *Ontario Public Accounts*. Data for 1975 and 1976 are Ontario Treasury estimates made on the same basis as previous years.

Major Differences in Public Accounts and National Accounts Estimates of Federal Government Activity

Public Accounts Basis	*National Accounts Basis*
• Employs current cash/accounting concepts.	• Economic activity measure. Based on international concepts and classifications.
(Both measures exclude purely financial transactions such as loans and advances.)	
• Covers all revenue and expenditure reported within the fiscal year.	• Makes adjustment for lags in payments and revenue collections (eg. corporation tax is put on an accrual basis – refunds of prior years' expenditures are excluded).
• Social security fund receipts and payments are included, eg. OAS, UIC. Only CPP excluded.	• Social security funds, except CPP, all included.
• Includes activities of all Crown Corporations, Boards and Agencies.	• Crown Corporations which are business enterprises (eg. CNR, Post Office) are included only to the extent of netting losses against profits.
• Includes sales and purchases of land and buildings.	• Excludes sales and purchases of land and buildings (non-productive activity).
• Includes sales of goods and services.	• Excludes sales of goods and services (counted as spending of private sector).
• No depreciation for fixed assets such as buildings and machinery.	• Includes an estimate for consumption of capital.
• Includes all spending, both domestic and abroad, and all revenue raised in Canada and other countries.	• Includes expenditure and revenue arising from economic activities abroad (eg. return on investments and wages and salaries of military personnel and the consular service).*

*At the national level these transactions are included in the National Accounts estimates but at the provincial level they are excluded.

Preliminary Reconciliation of National Accounts Basis and Public Accounts Basis

Table 1-2

($ million)

	1975-76 Canada	1975-76 Ontario
Total Federal Revenue—Public Accounts Basis	**35,721**	**14,059**
Deduct:		
Crown Corporation revenue	3,809	1,069
Post office revenue	560	233
Return on investments	1,104	450
Other non-tax revenue	229	72
Other revenue	512	185
Corporation income tax: excess of collection over accruals	565	254
Sub-total	6,779	2,263
Add:		
Employer contributions to superannuation funds	691	159
Government investment income:		
Interest on loans, advances and investments	1,174	
Interest receipts on social insurance and superannuation funds	902	896
Remitted profits less covered losses of government business enterprises	136	
Capital consumption allowance	442	141
Miscellaneous	19	7
Sub-total	3,364	1,203
Different methodology for distribution of total to the provinces		+995
Total National Accounts Revenue	**32,306**	**13,994**
Total Federal Expenditure—Public Accounts Basis	**39,273**	**12,979**
Deduct:		
Crown Corporation expenditure net of government transfers	3,926	1,605
Post office expenditure	1,030	469
Deficit of government business enterprises	178	73
Reserves and write-offs	49	20
Purchase of land and other existing capital assets	49	20
Budgetary revenue offset against budgetary expenditure	170	69
Adjustment of UIC expenditure to national accounts basis	166	68
Adjustment of government pension payments to national accounts basis	107	44
Budgetary transfers to funds and agencies	2,026	829
Miscellaneous expenditure grossed up	192	78
	7,893	3,275
Add:		
Interest payments netted out	1,256	509
Government contributions to social security and superannuation	1,716	698
Expenditure of government funds and agencies	1,497	612
Capital consumption allowance	442	181
Miscellaneous adjustments	21	9
	4,932	2,009
Different methodology for distribution of total to the provinces	—	+156
Total National Accounts Expenditure	**36,312**	**11,869**

Appendix 2

Methodology for Allocating Major Items of Public Accounts Revenue

FEDERAL OWN ACCOUNT REVENUE

1. Personal Income Tax

   Distributed by province according to *Taxation Statistics (Revenue Canada)*.

2. Corporation Income Tax

   Allocated according to Part IV of the *Regulations to the Income Tax Act* and *Corporation Taxation Statistics (Statistics Canada (S.C.) 61-208)*.

3. General Sales Tax

   Provincial distribution of total retail sales (less personal expenditure on tobacco, alcohol and gasoline) was applied to total federal sales tax revenue (less tax on tobacco, alcohol and gasoline). (Equalization Formula, *Finance Canada; Ontario Treasury estimates; S.C. 63-202, S.C. 45-004, S.C. 68-201E, S.C. 11-003E)*.

4. Taxes on Tobacco

   Calculated by applying provincial distribution of cigarette sales volume to total Canadian tobacco sales multiplied by federal sales tax per unit, and to total revenue from taxes for excise duties and excise taxes *(S.C. 11-003E)*.

5. Taxes on Alcohol

   Allocation for sales tax was based on adjusted cost of sales of provincial liquor authorities *(S.C. 63-202; LCBO 49th Annual Report)*. For excise duties and excise taxes, provincial gallonage sales distribution was multiplied by appropriate rate of tax *(S.C. 68-201E, S.C. 63-202, Commerce Clearing House, Federal Tax Guide, 1975-76)*.

6. Taxes on Gasoline

   Obtained by multiplying provincial sales volume by federal sales tax per gallon (adjusting for increases in price and price freeze periods), and by the 10¢ tax rate for excise taxes *(S.C. 45-004; Commerce Clearing House, Federal Tax Guide, 1974-75, 1975-76)*.

7. Custom Import Duties

   Allocated by personal disposable income index *(S.C. 13-201)*.

8. Employer and Employee Contributions to UIC

   Distributed by provincial percentage of UIC premiums as found in *Taxation Statistics (Revenue Canada)*.

9. Contributions by Federal Government Employees to Public Service Superannuation Fund

   Allocated using number of federal employees per province *(S.C. 72-004)* and size of military personnel *(Department of National Defence)*.

10. Post Office Revenue

    First class mail, and postage stamps allocated by population index *(S.C. 11-002)*. Second to fourth class mail allocated using the index of corporate activity *(S.C. 61-208)*.

11. Other Revenue

    Distributed by employing various indicators—population, personal disposable income, the corporate activity index, etc. *(S.C. 11-002, 13-201, 61-208)*.

CROWN CORPORATIONS

After eliminating "double-counting" in own account revenue and expenditure, Crown Corporation revenue was distributed by the degree of corporate activity in each province, using *Statistics Canada* and *the Annual Report of each Corporation*.

Methodology for Allocating Major Items of Public Accounts Expenditure

FEDERAL OWN ACCOUNT EXPENDITURE

1. Wages and Salaries

   Based on distribution of federal wages and salaries *(S.C. 72-004)* plus breakdown of the location of armed forces personnel *(Department of National Defence)*.

2. Other Personnel Costs

   Calculated on the same distribution as wages and salaries.

3. Information

   Allocated on a per capita basis *(S.C. 11-003)*.

4. Transportation and Communications

   Allocated according to detail in *Public Accounts*.

5. Professional and Special Services

   Adult Training distributed as detailed in *Public Accounts*. Other costs allocated via various methods—population index, distribution of federal employees, etc.

6. Rentals

   Distributed according to detail in *Public Accounts*.

7. Repair and Upkeep

   Distributed according to detail in *Public Accounts*.

8. Materials and Supplies

   Distributed according to detail in *Public Accounts*.

9. Construction and Acquisition of Land, Buildings and Equipment

   Distributed according to detail in *Public Accounts*.

10. Grants and Contributions

    Over 80 per cent distributed as detailed in *Public Accounts* (Fed.-Prov. agreements and transfers to persons). The remainder distributed via various methods such as: native population, fish landings, farm acreage, corporate activity, etc. *(S.C. 11-002 etc.)*.

11. Post Office Expense

    Costs of running postal service broken down into two categories, private use and business use. Private use (first class mail and postage stamps) allocated by population index *(S.C. 11-002)*. Business use (second to fourth class mail) allocated using index of corporate activity *(S.C. 61-208)*.

12. Public Debt Interest

    After eliminating purely internal transactions between federal departments and Crown agencies, the interest costs were basically distributed according to each province's share of the total individual and corporate income derived from holding Canadian securities *(Taxation Statistics, Revenue Canada)*.

13. Unemployment Insurance Payments

    Provincial distribution as itemized in *Statistical Report on Operations of the Unemployment Insurance Act (S.C. 73-001)*.

14. Old Age Security Payments

    Distributed according to detail in *Public Accounts*.

CROWN CORPORATIONS

After eliminating "double-counting" in federal own account revenue and expenditure, Crown Corporation spending was distributed by the degree of corporate activity in each province using *Statistics Canada* and *the Annual Reports of each Corporation*.

Appendix 3

Fiscal Redistribution within Canada, 1961-62
($ million)

Table 3-1

	Federal Own Account			Federal Crown Corporations			Total Federal Sector		
	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	89	204	(115)	12	21	(9)	101	225	(124)
Prince Edward Island	22	62	(40)	2	3	(1)	24	65	(41)
Nova Scotia	187	487	(300)	37	47	(10)	224	534	(310)
New Brunswick	131	326	(195)	36	44	(8)	167	370	(203)
Quebec	1,657	1,534	123	224	246	(22)	1,881	1,780	101
Ontario	2,852	2,458	394	399	423	(24)	3,251	2,881	370
Manitoba	320	442	(122)	60	77	(17)	380	519	(139)
Saskatchewan	230	398	(168)	101	127	(26)	331	525	(194)
Alberta	487	598	(111)	86	110	(24)	573	708	(135)
British Columbia	696	746	(50)	101	123	(22)	797	869	(72)
Yukon and Territories	14	40	(26)	5	5	0	19	45	(26)
TOTAL	6,685	7,295	(610)	1,063	1,226	(163)	7,748	8,521	(773)

Table 3-2

Revenue Allocation for 1961-62

($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Tax Revenue												
Personal Income Tax	20.5	4.1	43.1	30.8	437.0	978.6	94.4	67.7	145.7	225.7	4.1	2,051.7
Corporation Income Tax	18.2	5.2	27.3	22.1	351.6	557.3	57.3	36.5	97.7	126.3	2.6	1,302.1
Income Tax on Dividends and Interest going abroad	1.6	.4	2.4	1.9	30.3	48.1	5.0	3.1	8.4	10.9	.2	112.3
Sales Tax	16.7	4.2	33.4	24.0	268.5	415.8	51.2	41.8	78.3	108.6	2.1	1,044.6
Excise Tax	3.5	.8	8.7	6.4	76.4	99.8	12.9	10.5	18.9	24.3	.3	262.5
Excise Duties	3.8	1.3	10.8	6.9	98.4	145.2	18.4	14.8	26.8	35.7	.7	362.8
Custom Import Duties	8.0	2.1	17.1	12.3	141.1	213.3	25.7	19.2	39.6	55.0	1.1	534.5
Estate Tax	.4	.1	9.1	1.2	16.2	27.1	7.0	1.9	4.0	17.5	.2	84.7
Total Tax Revenue	72.7	18.2	151.9	105.6	1,419.5	2,485.2	271.9	195.5	419.4	604.0	11.3	5,755.2
Non-Tax Revenue												
Return on Investment	2.9	.7	5.8	4.0	55.1	96.4	10.5	7.6	16.3	23.4	.5	223.2
Post Office Revenue	4.1	1.1	6.4	5.3	59.5	82.6	10.1	8.3	15.8	19.9	.4	213.5
Other Non-Tax Revenue	2.9	.7	4.8	4.0	34.6	41.7	6.2	8.7	10.7	12.2	.7	127.2
Contributions to Unemployment Insurance	4.2	.8	8.9	8.0	76.0	111.7	15.4	7.5	17.5	27.4	.4	277.8
Contributions to Superannuation	1.8	.7	9.3	4.1	12.8	34.0	5.5	2.8	6.9	9.0	1.3	88.2
Total Non-Tax Revenue	15.9	4.0	35.2	25.4	238.0	366.4	47.7	34.9	67.2	91.9	3.3	929.9
TOTAL REVENUE	88.6	22.2	187.1	131.0	1,657.5	2,851.6	319.6	230.4	486.6	695.9	14.6	6,685.1

Expenditure Allocation for 1961-62

Table 3-3

($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Salaries and Wages	25.9	11.1	145.8	66.0	203.4	562.3	86.1	45.0	109.9	148.3	15.5	1,419.3
Professional and Special Services	1.7	.7	8.2	4.1	20.0	31.3	6.4	4.5	7.8	9.9	.6	95.2
Transportation and Communications	2.6	.8	7.4	3.7	17.2	46.1	5.6	3.7	7.2	10.6	2.1	107.0
Information	.6	.1	.9	.7	6.5	7.7	1.2	1.2	1.7	2.0	.1	22.7
Rentals, Repairs and Upkeep	3.4	2.6	31.6	12.9	32.6	81.0	17.2	7.9	19.1	22.4	1.6	232.3
Utilities, Materials and Supplies	5.1	2.1	26.1	12.0	44.4	93.0	15.9	8.8	20.1	25.5	2.2	255.2
Construction and Acquisition Land, Buildings and Equipment	10.7	10.0	42.2	46.5	120.5	220.2	50.9	38.9	78.4	59.5	7.5	685.3
Unemployment Insurance Payments	19.0	3.3	23.0	20.5	135.8	142.9	21.4	15.0	23.9	50.0		454.8
Old Age Security Payments	11.9	5.2	28.9	21.3	131.7	226.1	38.1	39.6	42.3	79.6	.4	625.1
Superannuation and Pension Payments	1.7	.4	6.3	2.9	10.6	27.0	4.2	3.0	6.0	7.6	1.0	70.7
Public Debt Interest	21.0	5.0	33.6	27.7	241.6	286.9	42.8	42.8	61.2	74.7	1.7	839.0
Grants, Contributions and Transfer Payments	99.5	20.5	132.5	106.9	562.9	725.0	150.5	185.9	218.4	253.9	6.8	2,462.8
Other Expenditure	1.5	.4	2.5	2.1	18.1	21.5	3.2	3.2	4.6	5.6	.1	62.8
Less Expenditure Recovered	(.9)	(.2)	(1.5)	(1.2)	(10.8)	(12.9)	(1.9)	(1.9)	(2.8)	(3.4)	(.1)	(37.6)
TOTAL EXPENDITURE	203.7	62.0	487.5	326.1	1,534.5	2,458.1	441.6	397.6	597.8	746.2	39.5	7,294.6

1961-62 Reconciliation — Table 3-4

($ million)

1. DEFICIT		
Deficit (per Public Accounts)		791.0
Deficit Increases		
• Special Accounts (UIC, OAS, etc.)	1,079.9	
• Crown Corporation Activity	54.5	1,134.4
Deficit Decreases		
• Crown Corporation and Non-Budgetary Transactions	305.9	
• Special Accounts Adjustments	1,010.0	(1,315.9)
Adjusted Deficit		609.5
2. REVENUE		
Total Budgetary Revenue (per Public Accounts)		5,729.6
Add		
• Old Age Security Gross-up	644.0	
• Contributions to UIC	277.8	
• Contributions to Superannuation	88.2	1,010.0
Deduct		
• Crown Corporation and Crown Agency Activity	54.5	(54.5)
Total Adjusted Own Account Revenue		6,685.1
3. EXPENDITURE		
Total Budgetary Expenditure (per Public Accounts)		6,520.6
Add		
• UIC Payments	454.8	
• OAS Payments	625.1	1,079.9
Deduct		
• Government Contributions to Special Accounts (UIC, OAS, etc.)	119.7	
• Crown Corporation and Crown Agency Activity	186.2	(305.9)
Total Adjusted Own Account Expenditure		7,294.6
4. SUMMARY		
Adjusted Own Account Revenue	6,685.1	
Adjusted Own Account Expenditure	7,294.6	
Adjusted Own Account Deficit	609.5	

5. TOTAL GOVERNMENT SECTOR

	Own Account	Crown Corporations	Total
Revenue	6,685.1	1,063.2	7,748.3
Expenditure	7,294.6	1,226.2	8,520.8
Deficit	609.5	163.0	772.5

Table 3-5

Fiscal Redistribution within Canada, 1968-69

($ million)

	Federal Own Account			Federal Crown Corporations			Total Federal Sector		
	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	163	392	(229)	97	74	23	260	466	(206)
Prince Edward Island	37	171	(134)	2	7	(5)	39	178	(139)
Nova Scotia	315	691	(376)	89	113	(24)	404	804	(400)
New Brunswick	238	555	(317)	41	61	(20)	279	616	(337)
Quebec	2,658	2,796	(138)	419	471	(52)	3,077	3,267	(190)
Ontario	5,380	4,458	922	605	707	(102)	5,985	5,165	820
Manitoba	517	672	(155)	87	141	(54)	604	813	(209)
Saskatchewan	422	524	(102)	103	145	(42)	525	669	(144)
Alberta	945	914	31	155	184	(29)	1,100	1,098	2
British Columbia	1,404	1,204	200	178	198	(20)	1,582	1,402	180
Yukon and Territories	35	85	(50)	14	9	5	49	94	(45)
TOTAL	12,114	12,462	(348)	1,790	2,110	(320)	13,904	14,572	(668)

Table 3-6

Revenue Allocation for 1968-69

($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Tax Revenue												
Personal Income Tax	47.0	8.5	94.0	68.3	773.1	2,097.3	179.4	141.0	324.6	521.1	17.1	4,271.4
Corporation Income Tax	26.6	4.4	39.8	31.0	515.6	1,000.3	86.4	57.5	174.8	270.0	6.6	2,213.0
Income Tax on Dividends and Interest going abroad	2.5	.4	3.7	2.9	47.9	92.9	8.0	5.4	16.2	25.1	.6	205.6
Social Development Tax	.7	.1	1.4	1.0	11.4	30.9	2.6	2.1	4.8	7.7	.3	63.0
Sales Tax	37.3	10.7	72.6	57.6	526.5	802.4	94.7	93.8	172.3	229.6	.4	2,097.9
Excise Tax	5.8	2.1	13.5	10.3	93.8	158.1	15.8	12.6	27.6	38.3		377.9
Excise Duties	6.2	2.3	17.3	13.6	112.0	220.1	23.1	19.2	37.7	56.8	1.0	509.3
Custom Import Duties	12.0	2.7	22.0	16.8	196.4	306.8	35.3	30.9	57.2	79.2	2.4	761.7
Estate Tax	.8	.3	3.1	1.5	24.6	52.9	6.2	4.9	8.9	9.0	.2	112.4
Other Taxes					.1	.1						.2
Total Tax Revenue	138.9	31.5	267.4	203.0	2,301.4	4,761.8	451.5	367.4	824.1	1,236.8	28.6	10.612.4
Non-Tax Revenue												
Return on Investment	4.8	1.1	9.3	7.1	80.5	167.2	15.6	13.0	29.1	43.6	1.1	372.4
Post Office Revenue	6.1	1.1	9.3	7.4	92.3	149.7	15.3	12.4	28.0	40.7	1.0	363.3
Other Non-Tax Revenue	3.8	.8	6.1	4.8	50.1	67.8	8.7	13.7	22.2	19.6	1.5	199.1
Contributions to Unemployment Insurance	7.2	1.4	14.0	10.4	116.7	186.3	19.0	11.8	32.1	52.0	1.3	452.2
Contributions to Superannuation	1.8	1.1	9.4	5.5	16.9	46.9	7.0	3.8	9.2	11.3	1.1	114.0
Total Non-Tax Revenue	23.7	5.5	48.1	35.2	356.5	617.9	65.6	54.7	120.6	167.2	6.0	1,501.0
TOTAL REVENUE	162.6	37.0	315.5	238.2	2,657.9	5,379.7	517.1	422.1	944.7	1,404.0	34.6	12,113.4

Expenditure Allocation for 1968-69

Table 3-7

($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Salaries and Wages	34.5	20.1	182.2	107.6	325.9	979.8	137.7	73.8	180.7	226.9	18.5	2,287.7
Other Personnel Costs	.2	.2	2.0	1.2	2.9	8.7	1.4	.6	1.8	1.8	.1	20.9
Transportation and Communications	4.9	1.6	16.5	8.8	43.7	113.3	12.9	9.6	17.3	26.6	3.4	258.6
Information	.7	.1	1.1	.9	8.3	10.2	1.4	1.3	2.2	2.8	.1	29.1
Professional and Special Services	4.7	8.1	12.4	13.2	79.3	87.1	15.6	11.2	18.7	20.9	.4	271.6
Rentals, Repairs and Upkeep	3.8	3.6	26.0	16.4	39.1	133.7	18.9	5.6	24.2	21.4	3.2	295.9
Utilities, Materials and Supplies	4.6	2.7	22.9	14.1	46.3	109.1	18.0	10.0	24.1	27.6	1.8	281.2
Construction and Acquisition of Land, Buildings and Equipment	21.8	7.6	33.4	43.8	125.4	283.6	38.4	14.1	66.0	64.9	20.2	719.2
Unemployment Insurance Payments	21.6	3.8	20.5	20.5	151.8	136.5	16.8	13.7	18.9	55.1	—	459.2
Old Age Security Payments	32.3	69.3	12.6	52.0	364.1	550.6	88.4	86.9	103.9	180.0	1.2	1,541.3
Superannuation Payments	2.0	1.5	13.4	7.8	21.9	62.4	9.5	4.5	12.3	13.9	1.1	150.3
Public Debt Interest	19.2	7.4	57.7	38.5	294.5	609.8	78.4	69.6	121.4	180.5	3.0	1,480.0
Grants, Contributions and Transfer Payments	233.9	45.0	292.4	229.4	1,219.0	1,327.0	229.4	211.4	314.9	364.4	31.5	4,498.3
Other Expenditure	10.6	2.2	16.3	13.2	126.2	154.9	20.8	20.3	32.7	42.8	1.3	441.3
Less Revenue and Receipts Credited to Votes	(3.0)	(2.3)	(18.3)	(12.0)	(52.1)	(108.4)	(16.2)	(9.1)	(25.3)	(25.5)	(.6)	(272.8)
TOTAL EXPENDITURE	391.8	170.9	691.1	555.4	2,796.3	4,458.3	671.4	523.5	913.8	1,204.1	85.2	12,461.8

1968-69 Reconciliation — Table 3-8

($ million)

1. DEFICIT		
Deficit (per Public Accounts)		576.1
Deficit Increases		
• Special Accounts (UIC, OAS, etc.)	2,000.5	
• Crown Corporation Activity	270.0	2,270.5
Deficit Decreases		
• Crown Corporation and Non-Budgetary Transactions	305.9	
• Special Accounts Adjustments	2,192.3	(2,498.2)
Adjusted Deficit		348.4
2. REVENUE		
Total Budgetary Revenue (per Public Accounts)		10,191.1
Add		
• Old Age Security Gross-up	1,626.1	
• Contributions to UIC	452.2	
• Contributions to Superannuation	114.0	2,192.3
Deduct		
• Crown Corporation and Crown Agency Activity	270.0	(270.0)
Total Adjusted Own Account Revenue		12,113.4
3. EXPENDITURE		
Total Budgetary Expenditure (per Public Accounts)		10,767.2
Add		
• OAS Payments	1,541.3	
• UIC Payments	459.2	2,000.5
Deduct		
• Government contribution to Special Accounts (UIC, OAS, etc.)	289.5	
• Crown Corporation and Crown Agency Activity	16.4	(305.9)
Total Adjusted Expenditure		12,461.8
4. SUMMARY		
Adjusted Own Account Revenue		12,113.4
Adjusted Own Account Expenditure		12,461.8
Adjusted Own Account Deficit		348.4

5. TOTAL GOVERNMENT SECTOR

	Own Account	Crown Corporations	Total
Revenue	12,113.4	1,790.2	13,903.6
Expenditure	12,461.8	2,109.7	14,571.5
Deficit	348.4	319.5	667.9

Fiscal Redistribution within Canada, 1975-76

($ million)

Table 3-9

	Federal Own Account			Federal Crown Corporations			Total Federal Sector		
	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	458	1,141	(683)	118	101	17	576	1,242	(666)
Prince Edward Island	92	314	(222)	9	17	(8)	101	331	(230)
Nova Scotia	803	2,143	(1,340)	213	242	(29)	1,016	2,385	(1,369)
New Brunswick	650	1,489	(839)	143	170	(27)	793	1,659	(866)
Quebec	6,596	8,723	(2,127)	791	916	(125)	7,387	9,639	(2,252)
Ontario	12,990	11,670	1,320	1,069	1,309	(240)	14,059	12,979	1,080
Manitoba	1,249	1,679	(430)	191	286	(95)	1,440	1,965	(525)
Saskatchewan	1,205	1,437	(232)	262	335	(73)	1,467	1,772	(305)
Alberta	3,817	2,376	1,441	393	470	(77)	4,210	2,846	1,364
British Columbia	3,954	3,436	518	593	608	(15)	4,547	4,044	503
Yukon and Territories	98	382	(284)	27	29	(2)	125	411	(286)
TOTAL	31,912	34,790	(2,878)	3,809	4,483	(674)	35,721	39,273	(3,552)

Table 3-10

Revenue Allocation 1975-76

($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Tax Revenue												
Personal Income Tax	184.2	35.2	333.1	258.7	2,391.4	5,590.1	507.8	494.3	1,174.1	1,699.5	40.8	12,709.2
Corporation Income Tax	60.1	10.4	99.9	86.4	1,217.5	2,548.9	209.5	134.9	598.5	755.8	26.4	5,748.3
Non-Resident Income Tax	4.8	1.0	8.2	7.2	100.6	210.8	17.3	11.1	49.6	62.5	8.2	481.3
Sales Tax	63.2	11.7	93.1	92.0	860.1	1,338.4	141.0	138.1	342.1	433.2	1.8	3,514.7
Excise Tax	13.5	4.0	27.9	23.1	235.2	308.4	35.8	40.4	79.2	92.8	1.3	861.6
Excise Duties	14.2	4.2	28.8	19.7	198.0	308.9	38.4	33.3	67.5	99.8	2.7	815.5
Custom Import Duties	32.9	7.2	54.6	44.6	459.9	745.8	84.4	82.1	154.9	220.8	—	1,887.2
Oil Export Charge	—	—	—	—		1.5	8.9	109.5	915.0	26.8	1.2	1,062.9
Estate Tax	.1		.5	.2	2.6	4.9	.5	.4	.9	.7	—	10.8
Miscellaneous Tax	—	—	—	—	.2	.2	—	—	—	.1	—	.5
Total Tax Revenue	373.0	73.7	646.1	531.9	5,465.5	11,057.9	1,043.6	1,044.1	3,381.8	3,392.0	82.4	27,092.0
Non-Tax Revenue												
Return on Investment	15.5	3.3	26.5	22.1	223.0	450.4	41.9	41.9	138.0	138.0	3.2	1,103.8
Postal Revenue	8.5	1.7	13.4	11.3	130.7	233.4	22.1	16.5	53.4	69.4	—	560.4
Other Non-Tax Revenue	5.3	1.9	8.2	6.2	54.2	72.2	9.2	14.3	25.7	27.8	4.2	229.2
Contributions to Unemployment Insurance	34.7	6.7	64.5	49.1	511.6	845.6	87.6	56.4	153.7	240.0	5.7	2,055.6
Contributions to Superannuation	8.9	2.3	25.5	13.7	71.5	145.0	21.3	11.6	24.7	31.8	2.5	358.8
Other Transfers to Revenue	12.3	2.6	18.4	15.3	139.3	185.4	23.0	20.5	39.9	55.4	—	512.1
Total Non-Tax Revenue	85.2	18.5	156.5	117.7	1,130.3	1,932.0	205.1	161.2	435.4	562.4	15.6	4,819.9
TOTAL REVENUE	458.2	92.2	802.6	649.6	6,595.8	12,989.9	1,248.7	1,205.3	3,817.2	3,954.4	98.0	31,911.9

Expenditure Allocation for 1975-76 — Table 3-11

($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Salaries and Wages	86.8	32.9	396.0	156.1	780.1	2,227.3	221.6	150.9	343.0	473.3	42.9	4,910.9
Other Personnel Costs	17.6	9.5	104.8	39.5	165.9	457.7	48.6	32.1	84.1	106.6	8.7	1,075.1
Transportation and Communications	20.4	3.8	48.0	29.5	64.4	149.8	41.8	36.5	67.1	73.4	1.8	536.5
Information	1.8	.4	2.7	2.2	19.9	26.5	3.2	2.9	5.7	7.9	.2	73.4
Professional and Special Services	43.0	8.2	76.8	39.9	224.2	337.9	51.2	36.9	102.3	98.3	5.1	1,023.8
Rentals, Repairs and Upkeep	10.1	2.6	20.1	10.3	111.2	306.3	22.2	9.3	23.3	64.8	15.4	595.6
Utilities, Materials and Supplies	11.2	6.4	83.5	29.6	117.5	287.5	35.6	19.8	59.5	75.2	22.5	748.3
Construction and Acquisition of Land, Buildings and Equipment	27.8	7.6	67.0	58.4	253.7	377.2	60.4	41.9	149.1	111.0	53.6	1,207.7
Unemployment Insurance Payments	168.0	28.2	139.5	162.9	1,152.5	1,009.5	63.0	50.5	90.0	432.1	9.2	3,305.4
Old Age Security Payments	85.2	29.5	170.2	128.8	1,000.4	1,369.3	214.2	205.5	269.9	457.4	3.6	3,934.0
Grants, Contributions and Transfer Payments	626.6	165.1	885.4	745.5	4,164.9	3,947.8	763.4	709.8	995.0	1,173.1	217.7	14,394.3
Public Debt Interest	29.7	13.5	124.1	67.5	572.4	1,109.5	126.9	116.0	203.8	334.8	1.4	2,699.6
Other Expenditure	23.9	8.1	44.8	34.8	273.9	373.6	56.1	53.6	75.1	122.6	1.4	1,067.9
Less Revenue and Receipts Credited to Votes	(11.0)	(2.3)	(19.6)	(15.6)	(177.7)	(309.8)	(29.7)	(29.0)	(91.6)	(94.7)	(1.6)	(782.6)
TOTAL EXPENDITURE	1,141.1	313.5	2,143.3	1,489.4	8,723.3	11,670.1	1,678.5	1,436.7	2,376.3	3,435.8	381.9	34,789.9

1975-76 Reconciliation Table 3-12
($ million)

1. DEFICIT		
Consolidated Deficit (per Public Accounts)		1,112.9
Deficit Increases		
• CPP Inflows	2,073.3	
• Crown Corporation Activity	870.1	2,943.4
Deficit Decreases		
• CPP Outflows	621.6	
• Crown Corporation Activity	556.7	(1,178.3)
Adjusted Deficit		2,878.0
2. REVENUE		
Consolidated Revenue (per Public Accounts)		34,855.3
Deduct		
• Crown Corporation Activity	870.1	
• CPP Inflows	2,073.3	(2,943.4)
Total Adjusted Revenue		31,911.9
3. EXPENDITURE		
Consolidated Expenditure (per Public Accounts)		35,968.2
Deduct		
• Crown Corporation Activity	556.7	
• CPP Outflows	621.6	(1,178.3)
Total Adjusted Expenditure		34,789.9
4. SUMMARY		
Adjusted Own Account Revenue	31,911.9	
Adjusted Own Account Expenditure	34,789.9	
Adjusted Own Account Deficit	2,878.0	

5. TOTAL GOVERNMENT SECTOR

	Own Account	Crown Corporations	Total
Revenue	31,911.9	3,809.5	35,721.4
Expenditure	34,789.9	4,483.3	39,273.2
Deficit	2,878.0	673.8	3,551.8

Appendix 4

Provincial Share of Population and Major Tax Bases, 1974 — Table 4-1
(per cent)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.
Population as of June 1, 1974	2.422848	0.521386	3.631923	2.955834	27.398189	36.150671
Tax Bases						
1. Assessed federal individual income tax	1.293360	0.254816	2.457715	1.805893	24.156233	42.413285
2. Allocated corporation taxable income	1.018424	0.188190	1.791320	1.676453	22.925579	45.824039
3. Value of sales by retail establishments	1.919420	0.367201	2.910560	2.538713	24.165138	38.073222
4. Motive fuel sales	1.708762	0.492741	3.253383	2.863229	25.818059	37.636018
5. Sales of alcoholic beverages	1.835908	0.514624	3.397025	2.251010	21.961589	38.050692
6. Total personal and business income	1.242302	0.266040	2.303654	1.909918	23.707915	43.336889

	Man.	Sask.	Alta.	B.C.	Seven Recipient Provinces
Population as of June 1, 1974	4.515401	4.050885	7.655009	10.697853	45.496466
Tax Bases					
1. Assessed federal individual income tax	3.731841	3.324211	7.926660	12.635987	37.024068
2. Allocated corporation taxable income	3.866935	2.660959	8.952561	11.095540	34.127860
3. Value of sales by retail establishments	4.212239	3.630969	9.070647	13.111891	39.744240
4. Motive fuel sales	4.201522	4.140793	9.051169	10.834324	42.478489
5. Sales of alcoholic beverages	4.892128	4.179098	8.884269	14.033658	39.031381
6. Total personal and business income	4.095085	3.243317	8.421126	11.473754	36.768231

Source: Data used to calculate final Equalization entitlements for the 1974-75 fiscal year, prepared by the Department of Finance, January 18, 1977.

Comparison of Provincial Per Capita Revenue, before and after Taking Account of Federal Equalization Transfers, 1966-67 and 1971-72

Table 4-2

Province	1966-67 Per Capita Revenue from Own Sources		1971-72 Per Capita Revenue from Own Sources	
	Unequalized Revenue ($)	Equalized Revenue ($)	Unequalized Revenue ($)	Equalized Revenue ($)
Provinces which do not receive Equalization				
British Columbia	333	333	513	513
Ontario	282	282	507	507
Alberta	314	314	500	500
Group Average	296	296	507	507
Provinces which receive Equalization				
New Brunswick	168	242	373	522
Quebec	237	264	439	513
Newfoundland	154	234	299	509
Prince Edward Island	141	240	279	467
Saskatchewan	267	303	399	458
Manitoba	194	228	402	453
Nova Scotia	147	216	309	432
Group Average	219	257	409	496

Source: Unpublished documentation, submitted to Federal-Provincial Conference of Ministers of Finance and Provincial Treasurers, January 31-February 1, 1972, Department of Finance.

Note: Provinces are listed within each group in descending order of equalized revenue as of 1971-72. Per capita amounts are based on official data of Statistics Canada. Amounts shown for 1971-72 are estimates and exclude equalization adjustments in respect of prior years. Own source revenue data for the Province of Quebec has been adjusted in order to be comparable with that for other provinces. The group averages are weighted by population.

Equalization Transfers as a Per Cent of Gross Revenue from Own Sources, by Province, 1971-72

Table 4-3

Province	Gross Revenue from Own Sources	Federal Equalization Transfers*	Equalization Transfers as Per Cent of Gross Revenue from Own Sources
	($ million)		(%)
Newfoundland	168	110	65
Prince Edward Island	38	21	55
Nova Scotia	280	95	34
New Brunswick	249	94	38
Quebec	2,764	446	16
Ontario	4,291		
Manitoba	425	50	12
Saskatchewan	423	55	13
Alberta	920		
British Columbia	1,160		
Equalization adjustments for previous years (unallocated)		140	
TOTAL	10,718	1,011	9

Source: Unpublished documentation, submitted to Federal-Provincial Conference of Ministers of Finance and Provincial Treasurers, January 31-February 1, 1972, Department of Finance.

Note: All figures in this table are based upon official estimates made by Statistics Canada. The revenue data for the Province of Quebec have been adjusted in order to be comparable with those for other provinces.

*The amounts shown for equalization transfers to individual provinces exclude adjustment payments in respect of previous fiscal years.

Federal Transfer Payments as a Per Cent of Gross General Revenue, by Province, 1971-72 Table 4-4

Province	Gross General Revenue	Federal Transfer Payments	Federal Transfers as Per Cent of Gross General Revenue
	($ million)		(%)
Newfoundland	410	245	60
Prince Edward Island	90	53	59
Nova Scotia	497	224	45
New Brunswick	466	222	48
Quebec	4,322	1,641	38
Ontario	5,277	1,150	22
Manitoba	626	212	34
Saskatchewan	602	187	31
Alberta	1,175	276	23
British Columbia	1,416	289	20
Total	14,881	4,499	30

Source: Unpublished documentation, submitted to Federal-Provincial Conference of Ministers of Finance and Provincial Treasurers, January 31-February 1, 1972, Department of Finance.

Note: The figures in this table are based upon official estimates made by Statistics Canada. The data for the Province of Quebec have been adjusted in order to be comparable with those for other provinces. The adjustments relate to programs where Quebec receives compensation in a form different from that which is applicable to other provinces.

For Immediate Release

Ottawa, June 6, 1977
77-63

Provincial Economic Accounts

Statistics Canada's experimental new "provincial economic accounts" released today point to "the importance of maintaining the Confederation," Finance Minister Donald S. Macdonald said in a statement.

The accounts show the way Confederation has operated to the advantage of all parts of the country, he said. They indicate that there have been substantial transfers of resources from more well-to-do provinces to others over the years. They also show that as economic fortunes have changed among regions, the impact of federal taxing and spending has shifted to balance growth across the country.

But the Finance Minister cautioned that no system of economic accounts can adequately measure the economic benefits of being part of Confederation. They cannot show, for example, the benefits of a large market, a stable currency, the ability to bargain internationally for Canada's interest, the capacity to even out economic fluctuations in different regions, or the great resources which can be brought together to undertake important economic developments.

In particular, the new figures today cannot be used to calculate a "balance sheet" on Confederation as attempted recently by the Government of Quebec. Even to show the direct impact of federal spending and taxing on each province would require at least four adjustments. Other adjustments could also be made. With the four adjustments only, the position of Quebec is very different from that portrayed by the Quebec government. Where Quebec showed a loss of $4.3 billion between 1961 and 1975, the adjusted figures show a gain of $1.7 billion over the somewhat shorter period of 1961 to 1974, which does not capture fully the recent strong shift in Quebec's favour.

Statement by Mr. Macdonald on the

Provincial Economic Accounts

Statistics Canada today released provincial income and expenditure accounts for the 10 provinces covering the period 1961 to 1974. I welcome the release of these numbers. Up to this point, the public had available only partial comments on these accounts presented by the Quebec and Ontario governments. I have refrained from making any detailed comments on this subject because I felt it was better to wait until the full picture was available.

A great deal of work has gone into the development of these accounts in which all provincial authorities have participated. They provide a rich new source of information on economic developments among the various regions. It should be noted, however, that these accounts are labelled as experimental. There are a great number of problems associated with bulding these new accounts for various regions in the country because of the absence of statistics suitable for this type of regional analysis. Moreover, we all have to gain experience in interpreting them. Even though the picture they present is favourable to the federal position on the importance of maintaining the Confederation, I would urge that people use these data with some caution.

What Are These Accounts?

Let me begin by discussing the nature of these accounts. Like the familiar national accounts, these economic accounts seek to measure the flow of production, expenditure and incomes. There are, however, two types of accounts available at the national level. The one type, which generates the figures for Gross National Product, attempts to measure the income earned by residents of Canada while the second type, the basis for Gross Domestic Product, attempts to measure the value of the production of goods and services produced within Canada. The provincial accounts are based upon the domestic product concept. If a region borrows heavily from the residents of other regions or abroad or much of its industry is owned by non-residents, the two measures will produce quite different results. A region in such a position may generate a high level of production, but some of the income derived from that production will flow outside the region to pay the non-resident investor. The income of the residents of the region is thus less than the value of production which takes place there. The different approach to economic accounts can lead to critical problems of interpretation if people are not careful in using these data.

The Economic Accounts

Used cautiously, these accounts can help us to understand the pattern of economic growth in Canada over the last 14 years. While it is clear that significant differences in the economic development of

each region continue to exist, these figures show that all provinces have shared in the good economic performance enjoyed by Canada over the last decade and a half. The accompanying table compares the overall growth rates of the different provinces in total and in per capita terms to growth rates experienced in other countries. To do this in a meaningful sense we have had to change the accounts from current dollar figures, which include the effects of inflation, to a constant dollar figure which excludes them. This has been done by using the national GNE deflator and since there are some problems in doing this, these results should not be regarded as precise.

This table shows that Canada's overall economic performance, and that of a majority of provinces, match that of most European countries. In terms of total GDP, Canada's growth has been rather spectacular. Only Japan among the O.E.C.D. countries has done better. In terms of GDP per capita, Canada's growth rate was slightly above the O.E.C.D. average and exceeded that of the United States, Australia, Germany, Sweden and the United Kingdom. The data show that this rapid growth was spread rather evenly throughout the country. Naturally, some provinces, particularly Alberta, have done even better. Alberta's growth rate clearly reflects the effect of the recent rise in the price of oil and gas. Saskatchewan's growth rate is exaggerated by these figures because 1961, the starting point for the series, was a particularly poor year for agriculture in the province. Its growth rate, calculated on the basis of a trend line fitted to the data in order to adjust for this,

TABLE 1

AVERAGE ANNUAL REAL GROWTH RATES IN REAL DOMESTIC PRODUCT: ACTUAL AND PER CAPITA, 1961-74

	Actual %	Per Capita %
Canada	5.6	3.9
Nfld.	5.5	4.2
P.E.I.	3.0	2.2
N.S.	4.6	3.8
N.B.	4.7	3.9
Que.	4.7	3.5
Ont.	5.5	3.4
Man.	4.8	4.1
Sask.	6.1	6.2
Alta.	7.7	5.6
B.C.*	6.7	3.6
U.S.A.	3.7	2.6
Japan	9.1	7.7
Australia	5.2	3.3
Belgium	4.9	4.4
Luxembourg	3.6	2.7
Denmark	4.1	3.4
Finland	4.9	4.5
France	5.3	4.3
Germany	4.3	3.5
Italy	4.8	4.0
Netherlands	5.1	3.9
Norway	4.8	4.0
Sweden	3.9	3.3
Switzerland	3.8	2.5
U.K.	2.7	2.3
O.E.C.D. - total	4.5	3.5
O.E.C.D. - Europe	4.5	3.6
E.E.C.	4.3	3.6

*Includes NWT and Yukon.

was nearer the national average. In the case of Prince Edward Island the figure for 1974 is very low, and an average based on end points also distorts the picture. A trend line average shows Prince Edward Island to have had growth slightly above average. Quebec's growth rate in per capita terms is marginally above Ontario's and can be considered good by international standards. It exceeded that of the United States, the United Kingdom, Sweden, Australia, Switzerland and Luxembourg in this period.

The economic accounts indicate that the relative positions of the provinces changed to only a limited extent over the period 1961-72. There was, however, a fairly dramatic change in the period 1973-74 as a result of the increase in the price of oil and gas and its effect on the position of Alberta.

If one considers, for example, the provincial shares of total domestic product, Ontario, Alberta, and British Columbia showed increases of one to two percentage points over the period 1961-72, while Quebec's share of total domestic product decreased by a little over two percentage points. These changes, however, are basically a reflection of population movements. On a per capita basis the relative positions of these provinces reflect little change. After 1972, however, the rapid rise in oil and gas prices had the effect of sharply increasing Alberta's share of total domestic product.

Consumption, as a share of provincial product, differs significantly from province to province. The provinces with a lower G.D.P. per capita have a much higher share than do the more well-to-do provinces. This reflects the effect of transfer payments which allow residents in these provinces to enjoy incomes and consumption patterns closer to those of residents in the rest of Canada. The transfers are also reflected in the large negative figures for net exports for these provinces. Because of the existence of transfers one should be careful in attempting to draw conclusions about income disparities from looking at the differences in provincial product numbers.

Table 2 presents the already existing data on personal disposable income per capita deflated by the national Consumer Price Index. It is encouraging to note that the provinces with the lowest personal disposable income per capita had the highest growth rates of personal disposable income over the last decade and a half.

The Government Accounts

The new accounts also contain data on the government sector. This sector has been treated in a way which is consistent with the economic accounts. The methodology is appropriate given a desire to produce a set of integrated accounts on a consistent basis, and the data are quite useful if used in an appropriate way. It is not possible, however, to use the government accounts as they are constructed to say

TABLE 2

1961-74 - REAL PERSONAL DISPOSABLE INCOME PER CAPITA

By Province	Average Annual % Growth Rate	Personal Disposable Income per Capita 1974 ($)
Nfld.	5.4	2,904
P.E.I.	4.8	2,795
N.S.	4.2	3,315
N.B.	4.7	3,107
Que.	3.9	3,707
Ont.	3.7	4,576
Man.	4.4	4,047
Sask.	6.8	4,151
Alta.	4.1	4,183
B.C.	3.6	4,486
Yukon & N.W.T.	4.0	3,895
Canada	4.1	4,121

something about the net benefits to any region of federal government activity. In constructing the new accounts, Statistics Canada allocates government expenditure to the region where the money is spent. The benefit of that expenditure, however, is not allocated. This is in keeping with the standard methodology of these domestic economic accounts. If the federal government maintains the Export Development Corporation in Ottawa, all the expenditure on this office is assigned to Ontario, even though the benefits of such expenditure obviously flow to citizens in all provinces.

If one wants to look at the accounts in order to judge the impact of federal spending and taxing on the level of production of goods and services in a province in the context of an evaluation of the effect of a province separating from Canada, one would have to make at least some adjustments. It is worth emphasizing that even with these adjustments, these accounts cannot be used to assess the net cost or benefit for a province of being part of Confederation. There is no simple accounting calculation which one can use to estimate the benefits of Confederation. Certain adjustments are essential, if one wants to use these numbers in the way the Quebec government has used them. The data produced give a qualitative picture of the impact of federal government spending and taxing, but certainly not a total or definitive one.

Adjustment for Federal Expenditure Abroad

As I noted earlier, the accounts are based on a domestic rather than a national product basis and as a result federal government expenditure abroad is excluded from the accounts. This is correct insofar as such expenditure does not contribute to economic activity in any of the provinces. It is not correct, however, for any one province to assign this expenditure to the other provinces. The Quebec government did precisely that when it argued that the federal government had been drawing off savings from Quebec to finance the development of the other provinces. (Page 13 of statement by M. Tremblay on March 25, 1977.) If one wants to arrive at some estimate of the value of federal expenditure to citizens in each of the provinces, it would be reasonable to take this expenditure into account. An independent Quebec would be obliged to make such expenditures on its own account and to the extent that people want to make arguments about the financial costs and gains from Confederation, they should therefore include them.

Adjustment for Indirect Taxes

The accounts attribute indirect taxes levied on goods and services to the province in which such goods and service were produced. This is done because the purpose of the accounts is to measure the value of production in a province at market prices, value which includes indirect taxes. One must be very careful in drawing any conclusions

based on this allocation about the burden of such taxes. There are many products sold interprovincially whose prices reflect the indirect taxes levied on their production, taxes which in effect have been paid by the consumers of these products, not the producers. If one were to use these numbers to measure the impact of federal government expenditure and the burden of federal government taxation, it would be better to allocate indirect taxes on the basis of consumption rather than production. In Table 3 we show the government accounts with this adjustment.

Federal Surplus

Another adjustment which is necessary concerns the net surplus of $1.8 billion which the federal government ran over this period. Each province paid more to the federal government that it received in expenditure by its share in the surplus. If the accounts had been extended into 1975, the federal government would have run a deficit. The Quebec government has argued that this surplus or deficit ought to be allocated and did so in their presentation of the accounts. We would agree that it is useful to allocate the surplus or deficit in this particular context in order to remove the effects of stabilization policy from an assessment of the impact of federal spending and taxing on a province. Table 3 shows the effect of allocating the federal government surplus on the basis of the distribution of provincial product.

Government Salaries in National Capital Region

The accounts allocate federal expenditure on salaries in the National Capital Region so that salaries paid to residents of Hull working in Ottawa are assigned to Ontario. As well, there are Ontario residents who work in Hull. In the past there have been fewer of these but their number has been increasing. Their salaries are allocated to Quebec. It would be more appropriate to assign the expenditure on wages to the residence of the employee where he pays his taxes and is more likely to spread his income, in assessing the impact of the federal government's activities. This adjustment would decrease the federal government spending in Ontario by about $800 million for the whole period 1961-74 and increase it in Quebec by $800 million.

The Overall Impact of Federal Government Expenditure and Taxing

Table 3 presents the results of these different adjustments. Again, I would stress that these are not precise numbers and cannot be used in a definitive way. They do give some indication of the general direction of the impact of the federal government and should be used in this qualitative way.

TABLE 3

NET CONTRIBUTIONS TO (+) OR RECEIPTS FROM (-)
THE FEDERAL GOVERNMENT BY PROVINCE OVER THE PERIOD 1961-1974
($ millions)

	Unadjusted Contribution(+) or Receipt (-)	Adjusted For: Indirect Tax	Federal Spending Abroad	Federal Surplus	Salaries in N.C.R.	Adjusted Contributi[on] or Receipts: Cumulative Total	Annual Per Capit[a] $
Ontario	19324	-5950	-2196	-741	807	11244	108
Alberta	2131	2468	-444	-169	0	3986	173
British Columbia*	1780	2136	-581	-210	0	3124	101
Prince Edward Island	-1208	236	-14	-4	0	-990	-632
Quebec	5128	-4218	-1342	-440	-807	-1679	-18
Saskatchewan	-3182	1699	-214	-74	0	-1771	-136
Manitoba	-2653	1086	-225	-73	0	-1866	-136
Newfoundland	-3607	704	-67	-24	0	-2994	-415
New Brunswick	-3862	812	-100	-32	0	-3182	-359
Nova Scotia	-6725	1027	-132	-42	0	-5872	-538

*Includes Yukon and Northwest Territories

Several interesting conclusions do, however, stand out, and these are consistent with what I believe most neutral observers would regard as the reality of Confederation. First, there are three provinces which appear to contribute more to the federal government than they receive. The three, not surprisingly, are the most well off in economic terms - Alberta, Ontario and British Columbia. The other provinces all receive more than they pay and these differences are financed by the more well-to-do provinces. Quebec received \$1.7 billion, or about \$250 per capita more in this period than it paid.

The second thing which stands out when one looks at these accounts is the important shifts which have occurred over time. Alberta was only a small net contributor until the mid-1960s. British Columbia was a net recipient in 1961 and then a small net contributor before becoming an important net contributor. If the accounts were available back to an earlier period, one would expect that both provinces might have been net recipients for that earlier period. As the economic fortunes of these provinces improved, they moved into a position where they were net contributors to the federal government. The opposite trend is apparent in Quebec. Quebec was a net contributor until the mid-1960s, after which it became a net recipient. If figures were available for 1975 and 1976, they would show Quebec gaining significantly in its relationship with the federal government.

These figures give a clear insight into how the Confederation works in the best interests of all regions by smoothing out the fluctations in the economic performance of the different regions. It does this by contributing less to some regions in times of economic prosperity for them, while contributing more to other regions in periods of economic difficulties.

Thirdly, it is important to note the significant transfers which have been made to the less well-to-do provinces. Newfoundland, for instance, has gained more than $400 per person per year in this period. For Nova Scotia the number is more than $500, and for Prince Edward Island the number exceeds $600. In my view, this is a positive representation of the manner in which the Confederation has worked to redistribute income from the more well-to-do to the less well-to-do regions.

Other Adjustments Which Could Be Made

In using the economic accounts in this way there are a number of other adjustments which one might want to make to them. The Quebec government has suggested that the accounts do not accurately portray the effect of the national oil policy on all the provinces. Oil compensation payments made to provinces consuming imported oil are calculated but the implicit subsidy which provinces consuming domestically produced oil enjoy, are not calculated. From 1961 to 1972, Ontario, Manitoba and B.C. were buying Canadian oil at a price higher than the price of imported

oil. They thus subsidized oil production in Saskatchewan and Alberta by more than $600 million. Since 1973, however, the international prices of oil and gas have been higher than domestic prices. This means Saskatchewan and Alberta are now subsidizing the consumption of oil and gas in the consuming provinces in Canada. The overall effect of making the adjustment for the implicit subsidy which has occurred in the past is not very large. It increases Ontario's gain by about $400 million and reduces Alberta's by about $800 million. Again, I would argue that this shows the strength of Confederation with different regions aiding each other in different periods of time.

The Ontario government has pointed out in its Budget that the economic accounts cannot possibly measure the impact of all federal government policies on the level of activity in a region. The tariff, as an example, allows Canadian producers to raise the price which they charge for a product by an amount roughly equivalent to the tariff. The tariff thus acts as a hidden tax paid by consumers to the protected industries. Consumers in regions with little industry protected by the tariff subsidize producers in regions with substantial amount of industry which is protected. We have attempted to calculate the value of this implicit subsidy for all years in the period 1961 to 1974 using the methodology employed by the Ontario government. The effect is to increase the benefits enjoyed by Ontario by about $2.7 billion and of Quebec by about $1.5 billion. The advantages of the Atlantic Provinces and British Columbia are reduced by over $1 billion and that of Alberta by $700 million. The tariff has clearly been a source of significant subsidy to both Quebec and Ontario.

TABLE 4

OTHER ADJUSTMENTS

CONTRIBUTION TO (+) OR RECEIPT FROM (-)
THE REST OF CANADA BY PROVINCE OVER THE PERIOD 1961-1974
($ millions)

	Domestic Oil Tax/ Subsidy	Natural Gas Tax/ Subsidy	Tariff Tax/ Subsidy
Ontario	-347	- 87	-2,729
Alberta	+662	+118	+ 748
B.C.	- 85	- 2	+1,195
Sask.	- 74	- 7	+ 622
P.E.I.	- 1	-	+ 155
Manitoba	- 27	- 10	+ 500
Que.	-114	- 13	-1,498
Nfld.	-	-	+ 394
N.B.	- 8	-	+ 279
N.S.	- 10	-	+ 335

*Surplus indicates that the rest of Canada receives more than it pays the particular province.

**Includes NWT and Yukon.

These are only two possible adjustments which could be made, and there are undoubtedly many others. There are many ways in which federal government policy can affect the level of economic activity in a region and it would be hopeless to attempt to calculate all of them. The effect of making numerous adjustments is not, however, likely to alter the basic result. The numbers will continue to show transfers from well-to-do regions to less well-to-do regions and over time from regions enjoying a period of economic prosperity to those having temporary difficulties. The magnitudes of these transfers are large with respect to some of the smaller, poorer provinces receiving them, but involve a relatively smaller burden to those larger, better off provinces which pay them.

I wish to conclude by emphasizing that the economic benefits of being part of Confederation are much more numerous and widespread than can be measured by a system of economic accounts. Every province derives benefits from the existence of the large Canadian market to which they can have unimpeded access, from the strength of the Canadian banking system or from the development of a technology which only a country having the size of Canada can envisage. These benefits are much more important than those which can be measured by an interprovincial allocation of federal government revenues and expenditures. They reflect the fact that the federation is a pooling of human and physical resources which permits achievements not otherwise attainable by the constituent provinces. An eloquent expression of that fundamental

reality is the following except from the statement issued by the Premiers of the four western provinces following their recent conference in Brandon, Manitoba: "The strength of Canada and the rationale for Canada is founded upon each of the regions complementing one another and balancing the weaknesses and strengths." It is in this sense that all provinces are winners in Confederation.

Note: An appendix on the methodological details of the calculations is available on request from the Department of Finance by calling 613-992-1573.

PRELIMINARY OBSERVATIONS
ON THE
ECONOMIC ACCOUNTS OF QUEBEC

Ottawa, April 5, 1977

Co-ordination Group,
Federal-Provincial
Relations Office

PRELIMINARY OBSERVATIONS ON THE ECONOMIC ACCOUNTS OF QUEBEC

The purpose of this document is to communicate to Members of Parliament and Senators some preliminary observations on the interpretation given on March 25 by the Premier and the Minister of Industry and Commerce of Quebec to the Economic Accounts of Quebec, which were published the same day by the government of that province.

The Economic Accounts present very useful information on the development of the Quebec economy from 1961 to 1975:

- what has been produced, consumed, saved and invested during that period by three distinct categories of economic agents: households, companies or corporations, and governments;
- what these economic agents have received in income - from Quebec sources only - and incurred as expenses - again in Quebec only - over the same period.

The Economic Accounts of Quebec, like those of other provinces, constitute a highly useful analytical and planning tool for private and governmental organizations that are interested in economic development at both the federal and provincial levels. For the federal government, this is particularly the case for the departments of Regional Economic Expansion, Finance, and Industry, Trade and Commerce.

... 2

Before going futher, it should be noted that the provincial economic accounts:

a) measure only one part of the federal government activities which the population of each province pays for and benefits from;

b) cannot be used to measure the costs and benefits of Canadian Confederation to a particular province, in this case Quebec;

c) cannot be used to estimate the costs or the benefits that would result from Quebec's separation from the rest of Canada or the direct impact of such a political upheaval on Quebecers' incomes.

What the Economic Accounts Are

The "Economic Accounts" are in the form of a 222-page document containing the initial results for Quebec of a new provincial economic accounting system developed by Statistics Canada in co-operation with the provinces.

The first four chapters of the document describe the new system, define the economic concepts, and give certain details on the methods used by the Quebec statisticians to identify and measure the principal dimensions of economic activity in Quebec. In general, these definitions and methods are largely the same as those used by the experts in Statistics Canada and in the other provinces. A fifth chapter gives a summary of the evolution of the main economic variables in Quebec during the period covered by the study, 1961 to 1975.

... 3

This evolution is presented in more detail in the 52 tables which really constitute the Economic Accounts of Quebec. The data on the years 1961-71 given in these tables are essentially the same, with the exception of minor revisions, as those compiled by Statistics Canada; most of the data for the years 1972-74 were also provided by Statistics Canada, with the remainder being estimates made on the same basis as that used in previous years by the Quebec statisticians. On the other hand, the data for 1975 are, with only a few exceptions, estimates made by the Quebec government.

Statistics Canada has already provided the other provinces with a preliminary version of their economic accounts for the 1961-71 period and will be able to provide them with complementary tables for the 1972-74 period at the meeting of the federal-provincial committee on provincial economic accounts, to be held April 18 to 20 in Edmonton. Each province is free to publish its accounts if and when it sees fit.

In short, the federal-provincial program, which made it possible for the government of Quebec to publish, on March 25, the economic accounts of the province, has attempted to identify and to measure the principal dimensions of economic activity within the territory of each Canadian province.

SOME FINDINGS

The Economic Accounts of Quebec in fact show that the Quebec economy did relatively well during the period in question. Based on the Economic Accounts, a number of observations can be made which Premier Lévesque and Rodrigue Tremblay, the Minister, chose to overlook in their statements of March 25.

1. Production

From 1961 to 1975, the gross domestic product (GDP) of Quebec, expressed in 1975 dollars to remove the effect of inflation[1], rose from $21,297 million to $39,567 million, representing a real, average annual growth rate of 4.5 per cent. This is lower than the growth rate of Canada, but higher than the rate registered during the 1962-73 period by the German Federal Republic, Switzerland, Sweden, Denmark, Luxemburg, the United Kingdom and Ireland and the same as that recorded by Italy.[2]

In other words, the Quebec economy developed more rapidly in the Canadian context than eight independent member countries, including some of the wealthiest, of the Organization for Economic Co-operation and Development (OECD).

2. Per capita production

From 1961 to 1975, the per capita gross domestic product of Quebec, expressed in 1975 dollars, rose from $ 4,050 to $6,394. This was an increase of 58 per cent, which placed Quebec ahead of some of the richest and most industrialized countries in the world. In fact, of the twenty-five member countries of the OECD, only three - the USA Sweden and Canada - registered a real per capita GDP (expressed in 1970 US dollars) higher than that of Quebec.[3]

[1]The data from the Economic Accounts of Quebec have been "deflatec using the implicit price index of Canada's gross national expendi ture, which is the most suitable index available at present.

[2]National Accounts of OECD countries, Paris, 1975.

[3]Principal Economic Indicators, OECD, November 1976

3. Personal income

During the same fifteen-year period, overall personal income in Quebec rose from $15,699 million to $32,870 million (again in 1975 dollars), an average annual real growth rate of 5.4 per cent. The growth rate for personal income was therefore considerably higher than that of the gross domestic product in Quebec. This difference is due mainly to the redistribution to Quebecers by the federal government of revenues derived from Canada's richest provinces.

4. Per capita personal income

From 1961 to 1975, the per capita personal income of Quebec rose from $2,982 to $5,312, an increase of 78 per cent. This increase was much larger than that of the per capita gross domestic product. This was possible mainly because the federal government, by means of its social security programs, supported the incomes of Quebecers by using the resources of the more productive provinces.

5. Social security

The Economic Accounts of Quebec clearly indicate that the federal government's social security programs have been highly advantageous to Quebecers. From 1961 to 1975, total payments made by the federal government to individuals in Quebec rose from $973 million (in 1975 dollars) to $2,931 million. As a result of family allowances, old age pensions, unemployment insurance and other such federal programs, the real per capita income of Quebec from direct federal transfer payments was $474 in 1975 - two and one-half times higher than in 1961.

6. Payments to the Quebec government

During the same period, amounts paid by the federal government to the Quebec government more than quintupled,

increasing from $435 million in 1961 to $2,197 million in 1975. Equalization payments and federal programs such as hospital and medical insurance amounted to $355 per capita for Quebec in 1975, as compared with $83 per capita fifteen years earlier. It will be noted that the federal government in this way has financed a high percentage of the expenditures of provincial and local administrations in Quebec. Rodrigue Tremblay, the Minister, has drawn attention to such expenditures - particularly to salaries and to investments and purchases from companies and corporations - as being related to direct job creation. In 1973, for example, the federal government could be said to have financed 17 per cent, or $937 million, of expenditures by Quebec and its local governments for these forms of direct job creation.

Interpreting the Accounts

There is, then, in the statistical paper published on March 25 by the government of Quebec, a number of easily verifiable points which clearly establish that "the very existence of a federal government", in the words of Premier Lévesque, is the source of considerable economic benefit for Quebecers.

However, the Economic Accounts of Quebec by no means give the whole economic picture of Quebec or measure all aspects of Quebec's economic relations with the other provinces of Canada, with the federal government or with foreign countries. The economists and statisticians who prepared the Economic Accounts, in fact, drew attention to this in their description of the methodology.

In brief, for technical reasons, the Economic Accounts constitute a very limited analytical tool when used

to examine how the Canadian economy functions, to draw up any interprovincial balance sheet of the federal government's economic activity, or to estimate Quebec's balance of payments with the rest of Canada and foreign countries.

Earlier it was seen that the Economic Accounts attempt to measure Quebec's gross domestic product, that is, the total value of goods and services produced within that province. This means that the methodology of the Economic Accounts excludes, by definition, certain expenditures and revenue attributable to Quebecers.

On the other hand, this methodology includes in Quebec's gross domestic product expenditures that are only partly paid for by Quebecers, and revenues that they will never receive either because they owe them to residents in other provinces or to foreigners, or because such revenues are made up of taxes actually borne by taxpayers in other provinces.

From the economic accounting standpoint, the methodology used in the Economic Accounts is valid (although there are others that could have been used just as correctly) - provided one does not attempt to make the tables say more than they actually can say. Therefore, it is all a question of interpretation.

Thus, the conclusions regarding the supposed "federal surplus" realized in Quebec and the hypothetical "current external balance" of the Quebec economy, as drawn

by the Quebec minister of Industry and Commerce on the basis of the Economic Accounts, in the introductory document which he distributed on March 25, could be valid only if he added to or subtracted from Quebec's gross domestic product these various revenues and expenditures, in order to arrive at a gross provincial product. What is at issue is not simply "a few million dollars here and there", as Mr. Tremblay told the press; for 1973 alone, the sums at issue could easily total $700 million more and a billion dollars less.

WHAT THE ECONOMIC ACCOUNTS EXCLUDE

1. Foreign investment income

Every day, individuals, corporations and financial institutions in Quebec buy and sell shares and bonds issued in foreign countries - shares of large American corporations, for example. These Quebec economic agents thus receive interest or dividents on such investments, which swell the "provincial revenue" generated in Quebec itself and constitute an additional source of either purchasing power or savings.

Such investment income is excluded, as it should be, from the GDP calculated in the Economic Accounts of Quebec, but it should have been considered before making any statements about the current account balance of the Quebec economy. For 1973 alone, these revenues from foreign sources are estimated at about $170 million.

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2. Investment income from other provinces

Similarly, every day, individuals, corporations and financial institutions in Quebec buy and sell shares and bonds issued in other Canadian provinces, e.g. Nova Scotia government bonds, Ontario industrials, Alberta oils, British Columbia forests and mines. These investments also generate interest or dividends and constitute for Quebecers - including the Quebec Deposit and Investment Fund - a substantial source of revenue, and therefore of purchasing power or savings.

The Economic Accounts also exclude from the GDP other investment income which it is difficult to estimate accurately at the present time.

3. Salaries paid to residents working outside Quebec

Many thousands of individuals reside in Quebec but work in another province and consequently receive their salaries and wages from an "outside" source. This is especially the case with more than 15,000 federal public servants who live in the Quebec section of the National Capital Region but who are employed in departmental headquarters located in Ottawa.

If an attempt is made to measure the Quebec GDP, as the Economic Accounts do, these revenues must be excluded. However, they must be included when attempting to evaluate the final demand for the Quebec economy, which Mr. Tremblay has clearly claimed to do. For 1973 alone, the salaries paid to federal public servants working in Ontario but residing in Hull and in the other Quebec municipalities making up the National Capital Region were estimated at over $100 million.

4. Federal government expenditures abroad

Any time a Quebec businessman or tourist uses the services of a Canadian embassy, consulate or trade mission abroad, he is "importing" public services; this "importation" is paid for out of the taxes he pays to the federal government.

The Economic Accounts completely disregard these transactions, real as they are. They exclude all federal government expenditures abroad, although they include all the taxes and revenues paid by Quebecers to the federal government and out of which these expenditures are financed. The same holds true for the economic accounts of the other provinces.[1]

For 1973 alone, the expenditures incurred abroad by the federal departments of External Affairs and Industry, Trade and Commerce were estimated at about $100 million. We should point out that several other federal departments and agencies incur expenditures outside the country when representing Canadian - and therefore Quebec - interests.

Under NATO, the federal government also maintains a large military contingent in the Federal Republic of Germany; it also assigns some Canadian Armed Forces personnel to UN peace-keeping operations, mainly in Cyprus and the Middle East. Provincial estimates of gross domestic product exclude all expenditures that the Department of National Defence incurs abroad for these purposes. For 1973 alone, these expenditures amounted to some $164 million.

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1 The federal government's foreign investment income is similarly excluded.

Provincial economic accounts - including Quebec's - also exclude from the measure of domestic product any grants paid to other countries by the Canadian International Development Agency (CIDA) and other transfer payments made abroad by the federal government. Estimates of these transfer payments amount to $312 million for 1973 alone.

In short, the federal government spent more than $600 million abroad in 1973. No mention is made of these expenditures in the Economic Accounts of Quebec, even though they were provided in part out of the taxes paid by Quebecers to the federal treasury that year.

It should be noted that one quarter, or approximately $150 million, of these expenditures may be imputed to Quebecers.

5. Expenses incurred outside Quebec by the head offices of federal government departments

Every day federal government department head offices deal with Quebec issues, push ahead with their analysis of some aspect of Quebec's economic, social or cultural problems, or work on proposals to promote the development of Quebec and the other regions of Canada. The subjects of their work range from energy and the aerospace industry to transportation, regional development, public health and foreign policy.

Federal government department head offices located outside Quebec are therefore at least as "productive" as their Quebec regional offices or Quebec-based head offices.

However, the operating costs of head offices outside Quebec are not included in the gross domestic product of Quebec, whereas the costs of Quebec regional offices and Quebec-based head offices are included in the Economic Accounts.

The provincial economic accounts did assign some financial value to federal public services provided within the territory of Quebec but seem to consider federal services "imported" from other provinces to be valueless or, more precisely, "free".

In fact, the logic of federal budget accounting for each province should be very different: a large portion of the federal taxes paid by Quebecers, as by other Canadians, is used to finance the activities of the head offices of federal government departments, whether they are located in Ottawa, Quebec or elsewhere. The operating costs in 1973 of head offices located in the Ontario sector of the National Capital Region are estimated to have been over $1.4 billion. A large portion of these disbursements will "cross" the Ottawa River and increase Quebec's gross domestic product when new federal buildings have been completed in Hull and the head offices of a dozen federal departments and agencies are relocated there.

It should be noted, as an illustration, that Quebec's contribution to the operating costs of federal department head offices in Ottawa in 1973 was approximately $350 million. This figure shows once again that one cannot rely on just one method - be it provincial economic accounts or any other - to estimate the economic costs or benefits that a community such as Quebec derives from its membership in the political and economic federation of Canada.

ITEMS THAT SHOULD NOT HAVE BEEN INCLUDED IN THE ACCOUNTS

The following comments are a counterpart to preceding remarks. They deal with incomes and expenditures that should have been excluded from the Quebec GDP in order to measure correctly the "final demand" or the "current external balance" of the Quebec economy, or to determine whether the federal government is taking a larger or smaller amount of income from Quebecers than it is spending for their benefit.

1. Funds paid to foreigners

The Economic Accounts of Quebec include in the gross domestic product of Quebec interest and dividends that individuals, companies and government bodies owe to foreign creditors and shareholders.

Although Quebecers do not receive any of these particular revenues, they are, nevertheless, included in the Quebec accounts as part of the provincial product. The total interest and dividends that Quebec economic agents had to pay to foreign creditors and shareholders in 1973 were estimated to be approximately $525 million. Interest paid to foreigners by the provincial and local governments alone amounted to approximately $225 million in the same year.

2. Funds owed to residents of other provinces

The interest and dividends owed by Quebec economic agents to creditors and shareholders in other Canadian provinces are also included in the Quebec GDP.

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However, these items represent a production "cost", specifically the amount of money that the Quebec economy must produce in order to pay the holders of the financial capital that it has procured elsewhere in Canada. At the present time no reliable estimates exist for this particular outflow of funds.

3. Salaries paid to non-residents working in Quebec

Salaries paid to non-residents working in Quebec are included when the GDP is calculated, even though the greater part of the sum in question represents one of those "leaks" of overall demand which are such a great cause of concern to the Quebec Minister of Industry and Commerce. Here again, this phenomenon is evident particularly in the National Capital Region; approximately one quarter of the federal public servants working in Quebec are resident in Ontario. The salary total in question was quite moderate in 1973 - slightly over $10 million - but since then it has grown considerably and will continue to grow as new federal buildings under construction in Hull are occupied.

4. Expenditures in Quebec by headquarters offices of the Federal Administration

All expenditures in Quebec by headquarters offices of federal departments and agencies situated in the province - principally in Hull - are included in Quebec's GDP. These administrative entities serve every province in the country, however, and "export" to the provinces an important percentage of the public services they produce.

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In 1973 the expenditures on goods and services of the federal entities situated in the National Capital Region Quebec sector were evaluated at over $95 million. The majority of these offices were headquarters rather than provincial branch offices. The Quebec share in these expenditures would therefore have been approximately $24 million.

ALLOCATION OF INDIRECT TAXES

Another aspect of the economic accounting used by the Province has the effect of systematically and substantially over-estimating the taxes levied in Quebec but actually paid by consumers in other provinces.

The Economic Accounts of Quebec attribute to Quebec all the receipts of federal indirect taxes levied in the province. The methodology used for calculating the GDP attributes to Quebec all the customs duties collected in Quebec and all the excise taxes and duties which the federal government levies on Quebec manufacturers, including the duties and taxes which enter into the price of goods sold outside Quebec.

This method of breakdown can be justified within the framework of national and provincial accounts, where it is extremely desirable to have compatible systems which permit the integration of statistics. However, if we wish instead to measure the economic impact of the federal tax system on the residents of Quebec, it is much preferable to evaluate the burden which is actually imposed by indirect taxes on Quebec consumers. If receipts from indirect federal

taxes from 1961 to 1975 are broken down on that basis among the provinces, it produces a far lower share for Quebec than the amounts published in the Economic Accounts.

The attached table summarizes the result of an estimate based on various indices of consumption. In this table, the value (in current dollars) of the indirect federal taxes borne by Quebec consumers (from 1961 to 1975) totals $16.2 billion. For the same period, the Economic Accounts attribute to the federal government over $20.4 billion in receipts originating in Quebec as indirect taxes. The difference between these two sums in $4.2 billion.

The Economic Accounts of Quebec attribute to the Province over 40 per cent of excise duties (on tobacco, spirits and beer) levied in Canada as a whole, and for two years Quebec's share amounts to over one half. For other indirect taxes, it can be observed that in almost all cases and for each year, the proportion attributed to Quebec in the Economic Accounts is higher than the Province's share of population. Nevertheless, an examination of various consumer indices, such as retail sales or disposable personal income, shows that Quebec's share, as compared to that of the other provinces, is regularly less than its share of the Canadian population. This difference is clearly the result of the fact that Quebec includes several ports of national importance - the port of Montreal, for example - and the fact that several major manufacturing industries are concentrated there.

One of the major conclusions which Mr. Lévesque and Mr. Tremblay draw from the Economic Accounts of Quebec is that during the 1961-1975 period the federal government

collected in Quebec revenues amounting to $4.3 billion more than the expenditures it made in the province, and that accordingly it derived a "surplus" equal to the same amount, paid for by Quebecers.

It will be observed, here and elswhere, how tenuous that conclusion is. It is entirely attributable to the method of breaking down indirect federal government taxes among the province. In sum, this interpretation by the Quebec government could alone explain an entirely fictitious financial imbalance, with respect to which the Premier of Quebec has nevertheless proceeded to draw dramatic conclusions - to be commented on later.

THE CLASSIFICATION OF FEDERAL PUBLIC CORPORATIONS

The receipts, expenditures, savings and investments of the Post Office Department and of federal crown corporations are classified in the consolidated production account (private sector) of the Economic Accounts of Quebec, as is done in the corresponding national accounts of Canada. Only the operating surpluses or deficits of the Post Office and these corporations are classified as revenues or expenditures of the federal government.

Expenditures by the Post Office Department were $551 million in 1973, but since postal receipts that year amounted to $476 million, only the postal deficit of $75 million was included in the federal expenditures to be allocated among the provinces. Hence, the amount allocated to Quebec for expenditures by the Post Office is limited to its share of the $75 million deficit.

However legitimate this may be in terms of economic accounting, this procedure has the effect of concealing an important dimension of the effect of the federal public sector on the Quebec economy. In fact, around twenty-five per cent of the staff of the Post Office Department is located in Quebec. In 1973 there were some 12,500 employees of this department in Quebec, with their salaries amounting to approximately $113 million. A large sum was also spent in Quebec on goods and services by the Post Office.

The allocation to the business sector of the activity of federal crown corporations is even more important if the economic accounts are used to draw up any kind of financial balance sheet for federal activity in Quebec.

In fact, the location in Quebec of the headquarters of the largest publicly owned federal enterprises such as the Canadian National Railways, Air Canada and Teleglobe Canada is due to "the very existence of a federal government", to use Premier Lévesque's own expression. In addition to these very important head office activities, it is necessary to take account of other crown corporations such as the C.B.C. and the National Harbours Board to gain an idea of the economic contribution made to Quebec by publicly owned federal enterprises.

In 1973 these federal enterprises had more than 36,500 employees in Quebec to whom more than $363 million in salaries was paid. Almost all of this amount, as well as the other costs of operation for these crown corporations is not classified as a federal expenditure in the Economic Accounts of Quebec.

THE ECONOMIC ACCOUNTS AND THE ARGUMENT OF MR. LEVESQUE AND MR. TREMBLAY

It is obvious from the preceding that the conclusion which the present Quebec government claims to derive from the Economic Accounts of Quebec and which Premier Lévesque has presented as being "absolutely incontestable" can by no means be derived if the Accounts are correctly interpreted. The leader of the Quebec government has stated that "these tables provide a clear picture of whether Quebec is gaining or losing in its relations with the rest of Canada". However, the preceding observations have clearly established that provincial economic accounting, in its present form, leaves out too many economic realities to permit such an interpretation.

The best illustration of this is provided by a consideration of the two main observations made by Premier Lévesque on the basis of his analysis of the Economic Accounts of Quebec

First observation by Mr. Lévesque

> "In the first place, the very existence of a federal government which taxes Quebecers in exchange for services which it provides to them, has cost Quebec, in 15 years, the impressive sum of $4.3 billion."

Observations

1. This interpretation of the Economic Accounts of Quebec overestimates by approximately $4.2 billion the indirect taxes which Quebec consumers actually paid

to the federal government during that period.

2. The "saving" of $4.3 billion supposedly realized in Quebec by the federal treasury from 1961 to 1975 represents in reality the value of indirect taxes - customs and excise duties, excise taxes and federal sales tax - collected in Quebec but actually paid by consumers in other provinces.

3. It is therefore not a "coincidence", as Mr. Tremblay stated to the press, that the "surplus" which the federal government supposedly realized in Quebec over this fifteen-year period is of the same size as the "net exports" determined in the Quebec accounts by residual calculation. As it turns out, what the province has in fact exported is a supposed fiscal burden.

4. The statisticians who prepared the Economic Accounts were in fact very careful about this question. Thus, in their explanatory text they said: "the only valid interpretation of this residual is to consider it as a surplus or a deficit of federal revenues collected in Quebec over the current expenditures of federal offices or branches operating in Quebec".(1)

5. On the contrary, the interpretation given by Mr. Lévesque and Mr. Tremblay to this surplus entirely omits the cost of public services of head offices of the federal government located in Ottawa and elsewhere outside Quebec which Quebecers benefit from. This is a cost of which Quebecers have had to assume approximately one quarter - that is, at the least, $350 million for the year 1973 alone.

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(1) Economic Accounts of Quebec, page 78.

6. Nor does this interpretation take into consideration the expenditures made abroad by the federal government for diplomatic and trade representation and defence. Quebecers have had to defray about one quarter of these expenditures, or at least $150 million in 1973.

7. Finally, this interpretation omits the salaries paid to federal employees who are residents of Quebec but who work in government offices in the Province of Ontario - an omission of more than $100 million.

Second Observation

> "...The second basic finding that can be drawn from these economic accounts is related to the other central feature which emerges, namely, Quebec's balance of payments (...) Quebec, in fact, was a net exporter of capital from 1961 to 1975, since it realized surpluses on its current account with the rest of the world totalling some $4.3 billion (...) In other words, a substantial portion of the saving realized by Quebecers was exported via the federal government to finance the development of other provinces."

However, despite what was stated on the subject by Mr. Lévesque and Mr. Tremblay, the Economic Accounts of Quebec, do not permit one to evaluate either the balance of merchandise trade, or the current account balance, or the balance of payments of Quebec with the rest of the world.

1. The Economic Accounts contain no direct estimate of either exports or imports of good and services for the Province of Quebec.

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2. The "net exports" balance appearing in table 2 of the statistical document is a catch-all including such items as

- the balance of merchandise trade;
- the share of federal indirect taxes collected in Quebec but actually borne by consumers in other provinces;
- the Quebec share of the cost of the public services made by out-of-Quebec head offices of the federal government, including its offices abroad;
- as well as a residual error which could actually be very important, given the developmental nature of the system of provincial economic accounting.

3. Even if it were possible to separate from this catch-all the Quebec share of federal expenditures outside of Quebec, and the indirect taxes collected from within Quebec but paid by non-Quebecers, this residual would not equal the balance of the current account. The Quebec accounts are based on the concept of gross domestic product which, by definition, does not take into consideration flows of interest and dividends between Quebec and the outside.

4. The amounts which Mr. Tremblay has listed under the designation "current account balance of Quebec" in the right-hand column of table 1 in the introductory document which he made public on March 2[illegible] therefore do not truly measure Quebec's current account balance. Rather, this is the sum, of a savings residual taken from the consolidated capital financing account (table 10) and from a percentage arbitrarily fixed at [illegible]0 per cent, of the undistributed profits of corporations for Canada as a whole.

5. The Quebec economy, like that of the whole of Canada, generally registers a deficit for receipts and payments of interest and dividends abroad. During 1973 alone, for example, it is estimated that Quebecers had to pay out $360 million more abroad in interest and dividends than they received.

6. Although no valid estimate of flows of interest and dividends between Quebec and the other provinces is available, nothing indicates that the Quebec economy enjoy a surplus under this category sufficient to offset the deficit which it must experience with foreign countries under the same heading.

7. Finally, no estimate of Quebec's external balance of payments can be established without examining the capital account, that is, the movement of capital between this province, the rest of Canada and abroad. However, the data which would have made this possible are not available.

GENERAL CONCLUSIONS

1. The Economic Accounts of Quebec do not permit an evaluation of the impact of the revenues, expenditures and other financial operations of the federal government on the Quebec economy.

2. These accounts do not permit any conclusions to be drawn on the balance of merchandise trade, the current account balance, or the capital account balance nor, as a consequence, on Quebec's external balance of payments.

3. Finally, these accounts do not permit any conclusion concerning the possible value of a hypothetical Quebec currency.

APPENDIX

ALLOCATION TO QUEBEC OF INDIRECT TAXES COLLECTED BY THE FEDERAL GOVERNMENT -- 1961-1975

	Proportion allocated to Quebec in the Economic Accounts of Quebec	Proportion allocated to Quebec according to relevant indices of consumption	Difference
	$000'000	$000'000	$000'000
1961	865	601	264
1962	923	651	272
1963	913	662	251
1964	1,002	784	218
1965	1,105	896	209
1966	1,202	972	230
1967	1,235	1,020	215
1968	1,266	1,012	254
1969	1,345	1,075	270
1970	1,353	1,072	281
1971	1,483	1,171	312
1972	1,669	1,315	354
1973	1,807	1,478	329
1974	2,142	1,758	384
1975	2,123	1,730	393
TOTAL	20,433	16,197	4,236

Sources: - *Economic Accounts of Quebec*, tables 44, 45, 46 and 48

- Preliminary study done by the task force of the Federal-Provincial Relations Office of the Government of Canada.